FIFTH THIRD BANCORP
Form S-4/A
November 29, 2007

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As filed with the Securities and Exchange Commission on November 29, 2007
Registration No. 333-147192

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

Amendment No. 1
to
Form S-4

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

FIFTH THIRD BANCORP
(Exact name of registrant as specified in its charter)

Ohio	**6711**	**31-0854434**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

Fifth Third Center, Cincinnati, Ohio 45263
(513) 579-5300
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

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Fifth Third Bancorp
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Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this registration statement becomes effective and upon the effective time of the merger of First Charter Corporation with and into Fifth Third Financial Corporation pursuant to the agreement described in the enclosed proxy statement/prospectus included in Part I of this registration statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the registration statement number of the earlier effective registration statement for the same offering. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, no par value	35,000,000 shares	N/A(2)	$752,449,586.00(2)	$23,100.21(3)

(1) Represents the maximum number of shares of Registrant s common stock estimated to be issuable upon the completion of the merger of First Charter Corporation (First Charter) with and into Fifth Third Financial Corporation (Fifth Third Financial), based on the number of shares of First Charter common stock outstanding, or reserved for issuance under various plans, immediately prior to the merger and the exchange of shares of First Charter Corporation for shares of Fifth Third Bancorp (Fifth Third) common stock pursuant to the formula set forth in the Amended and Restated Agreement and Plan of Merger, dated as of September 14, 2007, by and among First Charter, Fifth Third and Fifth Third Financial.

(2) Estimated in connection with the initial filing of this Form S-4 on November 7, 2007 solely for the purpose of computing the registration fee, and calculated pursuant to Rule 457(f) of the General Rules and Regulations under the Securities Act of 1933 (the Securities Act). Pursuant to Rule 457(c), (f)(1) and (f)(3) under the

Securities Act, based on the aggregate market value on November 5, 2007 of the 35,920,000 shares of First Charter Corporation expected to be exchanged in connection with the merger, the proposed maximum aggregate offering price is $752,449,586.00, which was determined by taking (i) the product of the average of the high and low prices of First Charter common stock expected to be exchanged in connection with the merger, including shares issuable upon exercise of outstanding options or other securities to acquire First Charter common stock, less (ii) the amount of cash expected to be paid by Fifth Third Bancorp in exchange for shares of First Charter Common Stock.

(3) Previously paid upon the initial filing of this Form S-4.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until this Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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**PROXY STATEMENT FOR FIRST CHARTER CORPORATION
SPECIAL MEETING**

PROSPECTUS OF FIFTH THIRD BANCORP

First Charter Corporation and Fifth Third Bancorp have agreed that Fifth Third will acquire First Charter in a merger. If the merger is completed, each outstanding share of First Charter common stock will be exchanged for either $31.00 in cash or such number of shares of Fifth Third common stock that have a value of $31.00. Each First Charter shareholder may elect to receive cash for all his shares, Fifth Third common stock for all his shares, or a combination of cash for some of his shares and Fifth Third common stock for the remainder of his shares, or may choose to elect no preference, in which case the merger consideration to be received will be determined by the exchange agent depending on the amount of cash and shares elected by those First Charter shareholders who make an express election. Notwithstanding the elections that may be made by the First Charter shareholders, the total consideration to be paid by Fifth Third will be approximately 70% in shares of Fifth Third common stock and approximately 30% in cash, but in no event more than 30% in cash. If the elections made by First Charter shareholders would result in an oversubscription for either stock or cash, then the exchange agent will prorate the amount of stock and cash to be issued to First Charter shareholders in the merger as necessary to obtain the 70% stock - 30% cash allocation of the merger consideration.

First Charter has scheduled a special meeting for its shareholders to vote on the merger agreement. The date, time and place of the special meeting are as follows: **10:00 a.m., Eastern time, January 18, 2008, the First Charter Center, 10200 David Taylor Drive, Charlotte, North Carolina 28262-2373.**

The Board of Directors of First Charter believes that the merger is in First Charter s and your best interests.

Your failure to vote will have the same effect as voting against the merger, so whether or not you plan to attend the special meeting, please promptly return the enclosed proxy card to us so that your shares are voted at the special meeting. The merger cannot be completed unless the shareholders of First Charter approve the merger agreement by the affirmative vote of 75% of the aggregate voting power of the outstanding stock of First Charter entitled to vote at the close of business on November 26, 2007. **Your vote is very important.**

First Charter common stock is traded on the NASDAQ Global Select Market System under the symbol FCTR. Fifth Third common stock is traded on the NASDAQ Global Select Market System under the symbol FITB.

For a description of certain significant considerations in connection with the merger and related matters described in this document, see Risk Factors beginning on page 14.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this document. Any representation to the contrary is a criminal offense.

The shares of Fifth Third common stock are not savings accounts, deposits or other obligations of any bank or savings association and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

The date of this proxy statement/prospectus is November 29, 2007, and it is first being mailed to First Charter shareholders on or about December 3, 2007.

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ADDITIONAL INFORMATION

This document incorporates important business and financial information about Fifth Third from other documents that are not included in or delivered with this document. This information is available to you without charge upon your written or oral request. You can obtain the documents incorporated by reference in this document through the Securities and Exchange Commission website at *http://www.sec.gov* or by requesting them from Paul L. Reynolds, Secretary, Fifth Third Bancorp, Fifth Third Center, Cincinnati, Ohio 45263 (telephone number: (513) 579-5300). **In order to ensure timely delivery of the documents, any request should be made by January 11, 2008.**

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ANNEXES:

Annex A:	Amended and Restated Agreement and Plan of Merger dated as of September 14, 2007 by and among First Charter Corporation, Fifth Third Bancorp and Fifth Third Financial Corporation (excluding exhibits)
Annex B:	Fairness Opinion of Keefe, Bruyette & Woods, Inc.

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: Why do First Charter and Fifth Third want to merge?

A: The First Charter Board of Directors believes that you will benefit by either becoming a shareholder of Fifth Third, or receiving cash in return for your First Charter common stock. The benefit of receiving cash is that you will get a $10.75 premium over the $20.25 market price of First Charter common stock on the day before the announcement of the merger. The First Charter Board of Directors also believes that, if you receive Fifth Third common stock in the merger, you will benefit from the opportunity for potential future appreciation of Fifth Third common stock. Fifth Third wants to better serve its customers in First Charter s service areas and to expand Fifth Third s presence in those markets.

Q: What will I receive for my First Charter shares?

A: You will receive shares of Fifth Third common stock, cash or a combination of Fifth Third common stock and cash having a value of $31.00 for each share of First Charter common stock that you own. Subject to proration as described below, you will have the opportunity to elect (a) to receive shares of Fifth Third common stock for all of your First Charter shares, (b) to receive cash for all of your First Charter shares, (c) to receive shares of Fifth Third common stock for some of your First Charter shares and cash for the remainder of your First Charter shares or (d) to express no preference, in which case you could receive all shares of Fifth Third common stock, all cash or a combination of Fifth Third common stock and cash for your First Charter shares. If you fail to make any election, then you will be treated as if you had expressed no preference. If you are to receive all or part of your payment in Fifth Third common stock, the number of shares of stock that you will receive in the merger will fluctuate before the effective time of the merger based upon the market price of Fifth Third common stock.

Regardless of the elections made by individual First Charter shareholders, the aggregate amount of cash paid to First Charter shareholders is limited to approximately 30% of the total merger consideration paid by Fifth Third, but in no event more than 30% in cash. Furthermore, the aggregate value of Fifth Third common stock transferred to First Charter shareholders is limited to approximately 70% of the total merger consideration paid by Fifth Third, but in no event less than 70% in Fifth Third common stock. Therefore, it is possible that if you elect to be paid all or part in cash, you may receive a portion or all of your payment in Fifth Third common stock or that if you elect to be paid all or part in Fifth Third common stock, you may receive a portion or all of your payment in cash.

Each issued and outstanding share of Fifth Third common stock will remain issued and outstanding and will not be converted or exchanged in the merger.

Q: If Fifth Third common stock or cash is oversubscribed, how will the allocation be determined?

A: As indicated above, the merger consideration you receive will be subject to the following proration procedure. Elections for the oversubscribed form of merger consideration will be prorated so that an overall 70/30 split of the merger consideration between Fifth Third common stock and cash is achieved.

If, after all First Charter shareholders have submitted their elections, the amount of Fifth Third common stock is oversubscribed, all First Charter shareholders who elected to receive cash will receive cash. In addition, all First Charter shareholders who chose no preference or made no election will receive cash. The exchange agent then will select on a pro rata basis a sufficient number of shares to receive cash instead of Fifth Third common stock from any shares that elected to receive Fifth Third common stock. This selection will be determined such that

the aggregate cash amount paid will equal as closely as possible, but in no event more than, 30% of the total merger consideration. All other shares that are not selected by the exchange agent will receive Fifth Third common stock.

If, after all First Charter shareholders have submitted their elections, the amount of cash is oversubscribed, all First Charter shareholders

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who elected to receive Fifth Third common stock will receive such stock. In addition, all First Charter shareholders who chose no preference or made no election will receive Fifth Third common stock. The exchange agent then will select on a pro rata basis a sufficient number of shares to receive Fifth Third common stock instead of cash among any shares that elected to receive cash. This selection will be determined such that the aggregate cash amount paid will equal as closely as possible, but in no event more than, 30% of the total merger consideration. All other shares that are not selected by the exchange agent will receive cash.

Q: When do you expect the merger to be completed?

A: We anticipate completing the merger as soon as possible after the special meeting of First Charter s shareholders, assuming the required shareholder approval is obtained. The merger is also subject to the approval of banking regulatory authorities and the satisfaction of other closing conditions. We anticipate that the closing will be in the first quarter of 2008, but there can be no assurances that the merger may not be delayed.

Q: When and where will the special meeting of First Charter s shareholders take place?

A: The special meeting will be held at 10:00 a.m., Eastern time, January 18, 2008, the First Charter Center, 10200 David Taylor Drive, Charlotte, North Carolina 28262-2373.

Q: What do I need to do now?

A: After reviewing this document, submit your proxy by executing and returning the enclosed proxy card. By submitting your proxy, you authorize the individuals named in the proxy to represent you and vote your shares at the special meeting in accordance with your instructions. These persons will be authorized to vote your shares at any adjournments of the meeting. **Your proxy vote is important. Whether or not you plan to attend the special meeting, please submit your proxy promptly in the enclosed envelope. You may also vote on the Internet or by telephone. Instructions for those voting methods are listed on your proxy card.**

Q: How will my shares be voted if I return a blank proxy card?

A: If you sign, date and send in your proxy card and do not indicate how you want to vote, your proxies will be counted as a vote in favor of approval of the merger agreement and in favor of adjournment of the special meeting if necessary to solicit additional proxies.

Q: What will be the effect if I do not vote and do not return a proxy card or attend the special meeting?

A: Your failure to vote will have the same effect as if you voted against the merger agreement.

Q: Can I vote my shares in person?

A: Yes, if you own your shares in your own name. You may attend the special meeting and vote your shares in person rather than signing and mailing your proxy card. However, to expedite the voting and tabulation process, we recommend that you sign, date and promptly mail the enclosed proxy card.

Q: Can I change my mind and revoke my proxy?

A: Yes, you may revoke your proxy and change your vote at any time before the polls close at the special meeting by:

timely delivery of a valid, later-dated executed proxy;

timely submitting a proxy with new voting instructions using the telephone or Internet voting system;

voting in person at the special meeting by completing a ballot (attending the meeting without completing a ballot will not revoke any earlier proxy); or

filing an instrument of revocation received by the Corporate Secretary of First Charter, 10200 David Taylor Drive, Charlotte, North Carolina 28262-2373 at any time before your shares are voted at the special meeting.

If you are a street-name shareholder and you vote by proxy, you may later revoke your proxy instructions by informing the holder of record in accordance with that entity s procedures.

Your latest dated proxy or vote will be counted.

Q: If my shares are held in street name by my broker, will my broker vote my shares for me?

A: No, you must instruct your broker on how to vote in order for your broker to vote your shares. Your broker will send you directions on how you can instruct your broker to vote. Your broker cannot vote your shares without instructions from you. Accordingly, if you do not instruct your broker how to vote your shares, your shares will not be voted, which will have the same effect as voting against the merger agreement.

Q: Can I vote my shares I hold through the First Charter 401(k) plan?

A: If you hold shares through First Charter s Retirement Savings Plan, which we refer to in this document as the First Charter 401(k) Plan, you will receive a vote authorization card for that plan that reflects all shares you may vote under it.

Under the terms of the First Charter 401(k) Plan, a participant is entitled to direct the trustee how to vote the shares credited to his or her First Charter 401(k) Plan account. The trustee will not vote any shares for which no instructions are given. Any shares not voted will have the same effect as a vote against the merger. The deadline for returning your voting instructions to the plan s trustee is 10:00 a.m. Eastern time on January 16, 2008.

Q: Should I send in my stock certificates now?

A: No. We will send you written instructions for exchanging your stock certificates.

Q: Who can answer my questions about the merger?

A: **If you have more questions about the merger, please contact Morrow & Co., LLC, 470 West Avenue, Stamford, Connecticut, 06902, (877) 807-8896, firstcharter.info@morrowco.com. Brokers and banks please call (203) 658-9400.** You may also contact Jane Vallaire, Investor Relations, First Charter Corporation, 10200 David Taylor Drive, Charlotte, North Carolina 28262-2373, (704) 688-4500, mergerinfo@firstcharter.com.

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SUMMARY

This summary highlights selected information from this document and may not contain all of the information that is important to you. To understand the merger fully and for a more complete description of the legal terms of the merger, you should read carefully this entire document, including the annexes, and the other documents we refer to. For more information about Fifth Third, see Where You Can Find More Information (page 141).

The Companies

Fifth Third Bancorp
38 Fountain Square Plaza
Cincinnati, Ohio 45263
(513) 579-5300

Fifth Third is a registered financial holding company, incorporated under Ohio law, headquartered in Cincinnati, Ohio. Fifth Third conducts its principal activities through its banking and non-banking subsidiaries. Fifth Third s subsidiary depository institutions operate a general banking business from over 1,100 banking centers located throughout Ohio, Indiana, Kentucky, Illinois, Michigan, Tennessee, West Virginia, Pennsylvania, Florida and Missouri. As of September 30, 2007, on a consolidated basis, Fifth Third had assets of approximately $104.3 billion, deposits of approximately $69.4 billion and shareholders equity of approximately $9.3 billion. Fifth Third common stock is traded on the NASDAQ Global Select Market System under the symbol FITB.

First Charter Corporation
10200 David Taylor Drive
Charlotte, North Carolina 28262-2373
(704) 688-4300

First Charter is a registered bank holding company, incorporated under North Carolina law, headquartered in Charlotte, North Carolina. First Charter s principal asset is the stock of its banking subsidiary, First Charter Bank. First Charter Bank provides a broad range of banking products, including interest-bearing and noninterest-bearing checking accounts, money market accounts, certificates of deposit, individual retirement accounts, full service and discount brokerage services including annuity sales, overdraft protection, financial planning services, personal and corporate trust services, safe deposit boxes, and online banking. It also provides commercial, consumer, real estate, residential mortgage and home equity loans.

In addition, First Charter Bank also operates two subsidiaries: First Charter Insurance Services, Inc. and First Charter Leasing and Investments, Inc. First Charter Insurance Services, Inc. is a North Carolina corporation formed to meet the insurance needs of businesses and individuals. First Charter Leasing and Investments, Inc. is a North Carolina corporation that administers leases and manages investment securities. It also acts as the holding company for First Charter of Virginia Realty Investments, Inc.

As of September 30, 2007, First Charter had, on a consolidated basis, assets of approximately $4.8 billion, deposits of approximately $3.2 billion and shareholders equity of approximately $457 million. First Charter common stock is traded on the NASDAQ Global Select Market System under the symbol FCTR.

The Merger

Pursuant to the amended and restated merger agreement among First Charter, Fifth Third and Fifth Third Financial Corporation, a wholly owned subsidiary of Fifth Third, dated as of September 14, 2007, at the effective time of the merger, First Charter will merge with and into Fifth Third Financial Corporation.

The aggregate merger consideration paid by Fifth Third will be approximately 70% in the form of shares of its common stock and approximately 30% in cash, but in no event more than 30% in cash. For each share of First Charter stock exchanged in the merger, the holder will receive a number of shares of Fifth Third common stock having a value of $31.00 based on the market price of such shares at that time, cash in the amount of $31.00, or a combination of Fifth Third common stock and cash having a value of $31.00.

Assuming that the average closing price per share of Fifth Third common stock for the five trading days ending on the day immediately before the closing of the merger is equal to $27.574, the average closing price per share of Fifth Third common stock on the five trading days ending on November 23, 2007, the number of Fifth Third shares of common stock that would be exchanged in

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the merger for one share of First Charter common stock is 1.1242 shares. Because the market value of the shares of Fifth Third common stock to be issued in the merger will fluctuate from time to time, the number of shares that you will receive will similarly fluctuate but the value is fixed at $31.00.

You May Elect To Receive Fifth Third Stock, Cash or Both in the Merger

You will be given the opportunity to elect (a) to receive shares of Fifth Third common stock for all of your First Charter shares, (b) to receive cash for all of your First Charter shares, (c) to receive shares of Fifth Third common stock for some of your First Charter shares and cash for the remainder of your First Charter shares or (d) to express no preference, in which case you could receive all shares of Fifth Third common stock, all cash or a combination of Fifth Third common stock and cash for your First Charter shares. If you fail to make any election, then you will be treated as if you had expressed no preference.

Regardless of the elections made by individual First Charter shareholders, the amount of cash paid to First Charter shareholders is limited to approximately 30% of the total merger consideration paid by Fifth Third, but in no event more than 30% in cash. Furthermore, the value of Fifth Third common stock transferred to First Charter shareholders is limited to approximately 70% of the total merger consideration paid by Fifth Third, but in no event less than 70% in Fifth Third common stock. Therefore, it is possible that certain First Charter shareholders that elect to be paid in cash may receive a portion or all of their payment in Fifth Third common stock and certain First Charter shareholders that elect to be paid in Fifth Third common stock may receive a portion or all of their payment in cash.

Each share of Fifth Third common stock issued and outstanding prior to the merger will remain issued and outstanding and will not be converted or exchanged in the merger.

Election Procedures

Prior to the effective time of the merger, each First Charter shareholder of record will be sent an election form, which you should complete and return, along with your First Charter stock certificate(s) (or a lost certificate affidavit or notice of guaranteed delivery), according to the instructions printed on the form. The election deadline will be 5:00 p.m., Charlotte, North Carolina time, on the day indicated on the election form. If you do not send in the election form with your stock certificates by the election deadline, you will be treated as a nonelecting shareholder as described above.

Do not send your First Charter stock certificates with your proxy card. At the appropriate time, your certificates and the election form should be returned separately to the address that will be specified on the election form and the letter of transmittal accompanying the election form.

Election forms will only be sent to First Charter shareholders of record, and only record holders are entitled to return forms specifying elections. If you are not a record holder of any of your shares of First Charter but rather own shares of First Charter common stock in street name, your bank, broker or other financial institution holding your shares will instruct you as to how to make your election.

You can revoke your election if you submit new election materials prior to the election deadline. You may do so by submitting a written notice to the exchange agent for the merger that is received prior to the deadline at the address included on the form of election. The revocation must specify the account name and such other information as the exchange agent may request; revocations may not be made in part. New elections must be submitted in accordance with the election procedures described in this document. If you hold First Charter shares in street name and instruct a bank, broker or other financial institution to submit an election for your shares, to change your election you must contact them and follow their directions for changing those instructions.

If you are a Fifth Third shareholder, you need not take any action with respect to your Fifth Third stock certificates as your Fifth Third stock will not be exchanged or otherwise changed by the merger. Only First Charter stock certificates will be converted into the merger consideration in the merger.

No Fractional Shares will be Issued

Fifth Third will not issue any fractional shares. Instead, you will receive cash in lieu of any fractional share of Fifth Third common stock owed to you in an amount equal to such fraction multiplied by $31.00.

Tax Consequences of the Merger

The exchange of shares is expected to be tax free to you for federal income tax purposes, except for any cash you receive for your First Charter common stock, which cash will be taxable. The expected material federal income tax consequences of this transaction are set out in greater detail on page 32.

Tax matters are very complicated and the tax consequences of the merger to you will depend on the facts of your own situation. You are urged to consult your tax advisor for a full understanding of the tax consequences of the merger to you.

Reasons for the Merger

The First Charter Board of Directors believes that the terms of the merger agreement are fair to, and that the merger is in the best interests of, First Charter and its shareholders.

The First Charter Board of Directors believes that the financial services industry, including banking, is becoming increasingly competitive, and that the merger will enable First Charter s customers to be better served and will provide First Charter s shareholders with substantial benefits.

You can find a detailed discussion of the background to the merger agreement and First Charter s and Fifth Third s reasons for the merger in this document under Proposal Merger of First Charter into Fifth Third Financial Background of the Merger beginning on page 22, First Charter s Reasons for the Merger beginning on page 25 and Fifth Third s Reasons for the Merger beginning on page 26.

Opinion of Financial Advisor

The First Charter Board of Directors has received the opinion of its financial advisor, Keefe, Bruyette & Woods, Inc. that, as of August 15, 2007, the date that Fifth Third and First Charter first entered into the merger agreement, the merger consideration was fair to the holders of First Charter common stock from a financial point of view. We have attached a copy of this opinion to this document as Annex B. You should read this opinion completely to understand the assumptions made, matters considered and limitations of the review undertaken by Keefe, Bruyette & Woods, Inc. in providing its opinion.

Recommendation to First Charter Shareholders

The First Charter Board of Directors recommends that you vote ***FOR*** approval of the merger agreement. The First Charter Board of Directors recommends that you vote ***FOR*** approval of any proposal to adjourn or postpone the special meeting, if necessary or appropriate, to solicit additional proxies in the event that there are not sufficient votes in favor of approval of the merger agreement at the time of the special meeting.

The Special Meeting

A special meeting of the First Charter shareholders will be held at 10:00 a.m., Eastern time, January 18, 2008, at the First Charter Center, 10200 David Taylor Drive, Charlotte, North Carolina 28262-2373. Holders of First Charter common stock outstanding as of the close of business on November 26, 2007 are entitled to vote at the special meeting and will be asked to consider and vote upon:

approval of the merger agreement;

the adjournment or postponement of the special meeting, if necessary or appropriate; and

any other matters as are properly presented at the special meeting.

As of the date of this document, the First Charter Board of Directors does not know of any other matters that will be presented at the special meeting.

Votes Required

At the special meeting, the merger agreement must be approved by the affirmative vote of 75% of the aggregate voting power of the outstanding stock of First Charter entitled to vote at the close of business on November 26, 2007.

The proposal to adjourn or postpone the special meeting, if necessary or appropriate to solicit additional proxies, requires the affirmative vote of the record holders of a majority of the voting power present and entitled to vote at the special meeting.

Under certain specified circumstances, the merger agreement may be terminated by the First Charter Board of Directors at any time before the effective time, whether before or after approval of the matters presented in connection with the merger by the shareholders of First Charter. This determination may be made without notice to, or the

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resolicitation of proxies from, the First Charter shareholders.

Share Ownership of First Charter s Management and Directors

On November 26, 2007, the record date for the special meeting, directors and executive officers of First Charter and their affiliates were entitled to vote 1,343,662 shares of First Charter common stock, or 3.86% of the First Charter shares outstanding on that date.

Ownership of Fifth Third Following the Merger

Based on the number of shares of Fifth Third common stock and First Charter common stock and options to purchase First Charter common stock outstanding on the record date and the limitation that approximately 70%, but in no event less than 70%, of the merger consideration will be comprised of shares of Fifth Third common stock, Fifth Third would issue approximately 28.3 million shares of its common stock to First Charter shareholders in the merger. This would constitute approximately 5.0% of the outstanding stock of Fifth Third immediately after the merger.

Conditions to the Merger

Fifth Third and First Charter will complete the merger only if certain conditions are satisfied. These conditions include:

- approval of the merger agreement by First Charter s shareholders;
- authorization for listing on the NASDAQ Global Select Market System for the shares of Fifth Third common stock to be issued to the holders of First Charter common stock upon consummation of the merger;
- effectiveness of the registration statement of which this document is a part, with no stop order suspending such effectiveness and no proceedings for that purpose shall have been initiated by the Securities and Exchange Commission;
- the receipt of certain regulatory approvals that shall not have resulted in the imposition of any materially burdensome regulatory condition under banking laws and the expiration of any statutory waiting periods;
- the receipt by Fifth Third of the opinion of its counsel that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, which counsel has subsequently been designated by Fifth Third to be Alston & Bird LLP;
- the receipt by First Charter of the opinion of Helms Mulliss & Wicker, PLLC that (1) the merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code and (2) except to the extent of any cash consideration received in the merger and except with respect to cash received in lieu of fractional share interests in Fifth Third common stock, no gain or loss will be recognized by any of the holders of First Charter common stock in the merger;
- the lack of any order, injunction or decree issued by any court or agency of competent jurisdiction or other legal restraint or prohibition preventing the consummation of the merger or any of the transactions contemplated by the merger agreement, or the lack of an enactment of a statute, rule, regulation, order, injunction or decree by any governmental entity that prohibits or makes illegal the consummation of the merger;

the representations and warranties of Fifth Third and First Charter shall be true and correct as of the date of the merger agreement and as of the effective time and First Charter and Fifth Third shall have received a certificate signed on behalf of the other party to such effect; and

First Charter and Fifth Third shall have performed in all material respects all obligations required to be performed by it under the merger agreement at or before the effective time and First Charter and Fifth Third shall have received a certificate signed on behalf of the other party to such effect.

Some of the conditions to the merger may be waived by the company entitled to assert the condition.

Right to Terminate

The Boards of Directors of Fifth Third, Fifth Third Financial and First Charter may jointly agree in writing to terminate the merger agreement

without completing the merger. In addition, either company can individually terminate the merger agreement prior to the completion of the merger if:

a governmental authority that must grant a regulatory approval denies approval of the merger;

a governmental entity of competent jurisdiction issues a final nonappealable order enjoining or otherwise prohibiting the merger;

the merger is not completed on or before August 15, 2008 (although this termination right is not available to a party whose failure to comply with the merger agreement resulted in the failure to complete the merger by that date); or

other conditions to closing the merger have not been satisfied.

Fifth Third has the right to terminate the merger agreement if:

First Charter is in breach of its representations, warranties, covenants or agreements set forth in the merger agreement (although this termination right is not available to Fifth Third if it is then in material breach of any representation, warranty, covenant or other agreement contained in the merger agreement) and such breach is either incurable or is not cured within 45 days;

First Charter s Board of Directors shall have failed to recommend the approval and adoption of the merger agreement in the proxy statement; or

First Charter s Board of Directors authorizes, recommends, proposes or publicly announces in a manner adverse to Fifth Third, its intention to authorize, recommend or propose an acquisition proposal with any person other than Fifth Third.

First Charter may terminate the merger agreement if:

Fifth Third is in breach of its representations, warranties, covenants or agreements set forth in the merger agreement (although this termination right is not available to First Charter if it is then in material breach of any representation, warranty, covenant or other agreement contained in the merger agreement) and such breach, either individually or in the aggregate results in the failure of the conditions to obligations of Fifth Third or First Charter and is either incurable or is not cured within 45 days of notice.

Termination Fee

First Charter must pay Fifth Third a termination fee of $32,500,000.00 if the merger agreement is terminated in any of the following circumstances:

by Fifth Third because First Charter breached any of its covenants, agreements, representations or warranties and, a competing acquisition proposal was received by First Charter prior to termination and within 12 months of termination First Charter shall have entered into a definitive written agreement with respect to the competing acquisition proposal or the acquisition proposal shall have been consummated; or

by Fifth Third after receipt by First Charter of a competing acquisition proposal if, prior to the First Charter shareholders meeting, First Charter s Board of Directors withdrew its recommendation or refused to recommend to the shareholders that they vote to approve the merger while there was a competing acquisition

proposal that had not been withdrawn or rejected by the First Charter directors and within 12 months of termination First Charter shall have entered into a definitive written agreement with respect to the competing acquisition proposal or the acquisition proposal shall have been consummated.

Fifth Third shall not be entitled to the termination fee if:

- the merger agreement is terminated by mutual agreement of the parties;

- the merger agreement is terminated due the failure to obtain regulatory approval by the appropriate governmental entities or due to a final and nonappealable order by a governmental entity enjoining or prohibiting the consummation of the merger; or

- the merger agreement is terminated by First Charter for the breach by Fifth Third of its representations, warranties, covenants or agreements set forth in the merger agreement

which breach, either individually or in the aggregate results in the failure of the conditions to obligations of Fifth Third or First Charter and is either incurable or is not cured within 45 days following written notice.

The effect of the termination fee could be to discourage other companies from seeking to acquire or merge with First Charter prior to completion of the merger, and could cause First Charter to reject any acquisition proposal from a third party that does not take into account the termination fee.

Interests of First Charter s Directors and Executive Officers in the Merger

When considering the First Charter Board s recommendation that First Charter s shareholders vote to approve the merger agreement, you should be aware that certain First Charter directors and executive officers have interests in the merger that are different from, or in addition to, yours.

The members of First Charter s Board of Directors knew about and considered these additional interests when they adopted the merger agreement.

First Charter Employment Agreements.

Fifth Third has entered into new employment agreements with Robert E. James, Jr., First Charter s President and Chief Executive Officer, Stephen M. Rownd, First Charter s Executive Vice President and Chief Banking Officer, and Jeffrey Scott Ensor, First Charter s Executive Vice President and Chief Risk Officer. Benefits under these agreements include a salary, bonus, retirement and fringe benefits, payment for covenants not to compete and lump-sum payments as consideration for termination of such executives First Charter employment agreements. The First Charter employment agreements of Messrs. James and Rownd, including applicable change-in-control provisions within such agreements, will terminate in accordance with the terms of their new Fifth Third employment agreements. As compensation for terminating their First Charter employment agreements, Mr. James will receive a lump-sum cash payment in the amount of $353,960.00 and Mr. Rownd will receive a lump-sum cash payment in the amount of $713,626.00. As consideration for entering into their covenants not to compete, Mr. James will receive $1,750,000.00 and Mr. Rownd will receive $530,000.00. The new Fifth Third employment agreement with Mr. Ensor will expressly terminate the change-in-control agreement between Mr. Ensor and First Charter. As compensation for terminating his First Charter change-in-control agreement, Mr. Ensor will receive a lump-sum cash payment in the amount of approximately $240,000.

Pursuant to these employment agreements, Fifth Third will employ Mr. James as the President and CEO of the Fifth Third affiliate headquartered in Charlotte, North Carolina. Fifth Third will employ Messrs. Rownd and Ensor each as an Executive Vice President of the Fifth Third affiliate headquartered in Charlotte, North Carolina.

Change-in-Control Payments.

Fifth Third will also honor First Charter change-in-control agreements with each of Cecil O. Smith, Jr., First Charter s Executive Vice President and Chief Information Officer, Stephen J. Antal, First Charter s Executive Vice President, General Counsel and Corporate Secretary, Josephine P. Sawyer, Senior Vice President and Director of Human Resources, and Sheila Stoke, First Charter s Senior Vice President, Controller and interim principal financial officer, regarding the change-in-control benefits payable to such executives as a result of the merger. The agreements provide a definitive statement of the payments and benefits to be provided to these First Charter employees. The agreements provide that the consummation of the merger and termination of employment under specified circumstances within one year thereafter triggers the obligation to provide those payments and benefits. Such benefits include the payment of COBRA premium costs for the continuation of group medical plan coverage for the executives and their eligible dependents for a period specified in the agreements. The aggregate value of the benefits to be received by such

executives in the event of the consummation of the merger and subsequent termination of employment is $1,203,300.00.

Excess Parachute Payments.

Pursuant to their employment agreements with Fifth Third, Messrs. James and Rownd will be entitled to receive a gross-up payment if any amounts to be paid to Messrs. James and Rownd would be subject to the excise tax imposed by Section 4999 of the Code. The aggregate value of the gross-up payments is expected to be approximately $675,000 for Mr. James and $812,000 for Mr. Rownd.

The new Fifth Third employment agreement for Mr. Ensor provides that no portion of the payment(s) made under Mr. Ensor s employment agreement shall be deemed to be an Excess Parachute Payment pursuant to Section 280G of the Internal Revenue Code. Mr. Ensor and Fifth Third agree that the present value of any payment under the employment agreement and any other payment to or for the benefit of Mr. Ensor in the nature of compensation, receipt of which is contingent on a change in control as defined in the employment agreement, and to which Section 280G of the Code applies, shall not exceed an amount equal to one dollar less than the maximum amount Mr. Ensor may receive without becoming subject to the tax imposed by Section 4999 of the Code. In the event that Sections 280G and 4999 of the Code or any successor provisions are repealed without succession, this provision of Mr. Ensor s employment agreement shall no longer apply.

The First Charter agreements regarding change-in-control benefits between First Charter and Mr. Smith, Ms. Stoke, Mr. Antal and Ms. Sawyer provide that no portion of the payment(s) made to these individuals shall be deemed to be an Excess Parachute Payment pursuant to Section 280G of the Internal Revenue Code. The present value of any payment under the agreements regarding change in control and any other payment to or for the benefit of Mr. Smith, Ms. Stoke, Mr. Antal and Ms. Sawyer in the nature of compensation, receipt of which is contingent on a change in control, and to which Section 280G of the Code applies, shall not exceed an amount equal to one dollar less than the maximum amount these individuals may receive without becoming subject to the tax imposed by Section 4999 of the Code. Fifth Third has agreed to honor these agreements according to their terms.

Director Advisory Fees.

Upon consultation with each member of the First Charter Board of Directors, Fifth Third has agreed to offer each director either (a) a seat on a Fifth Third local advisory board for the region formerly served by First Charter for a one-year period after the effective date of the merger or (b) a one-year advisory and consulting contract. Furthermore, in either case, Fifth Third shall pay quarterly compensation to such directors consistent with the existing fee structure offered by First Charter to such directors for a period of one year after the effective date of the merger. Based on that structure, we expect the payments under the existing fee structure to be approximately $65,000 per director for the one year following the merger. Any fees for service as a director or consultant after the first year have not been determined.

Stock Options and Restricted Stock.

As of the effective date of the merger, each option to purchase shares of First Charter common stock that is outstanding shall fully vest and be converted to an option to purchase Fifth Third common stock.

Furthermore, all performance objectives with respect to performance shares of First Charter shall be deemed to be satisfied to the extent necessary to earn 100% of the performance shares and the performance period shall be deemed to be complete. Such performance shares shall be deemed to be converted to actual performance share awards and the actual performance share awards shall be paid out in cash as soon as practicable. In addition, the restrictions on all awards of restricted First Charter common stock under the terms of the First Charter restricted stock plan under which they were issued will automatically lapse, and such shares will be exchangeable for the merger consideration.

Indemnification and Liability Insurance.

Fifth Third will purchase and keep in effect for a six-year period a policy of directors and officers liability insurance for officers and directors of First Charter or any of its subsidiaries immediately before the effective time of the merger providing coverage for acts or omissions of the type currently covered by First Charter s existing directors and officers liability insurance for acts or omissions occurring at or prior to the merger; provided, however, that such coverage will

be continued only so long as it may be obtained at no more than 300% of the premium currently paid by First Charter. If Fifth Third is unable to maintain such policy (or such substitute policy) as a result of the commercially unreasonable premiums, Fifth Third shall obtain as much comparable insurance as is available for the premium amount.

Effect on First Charter s Employees

Employment.

Fifth Third will consider employing as many of the employees of First Charter and its subsidiaries

who desire employment within the Fifth Third holding company system as possible, to the extent of available positions and consistent with Fifth Third s standard staffing levels and personnel policies.

Fifth Third Employee Benefit Plans.

For a six-month period following the effective time of the merger, Fifth Third will provide each of the employees of First Charter (as of the effective time of the merger) who continue employment with Fifth Third with employee benefits, rates of compensation and annual bonus opportunities that are substantially similar, in the aggregate, to the aggregate rates of base pay or hourly wage and employee benefits and annual bonus opportunities provided to such employees under the First Charter compensation and benefit plans as in effect immediately before the effective time of the merger.

In addition, Fifth Third will offer or provide to each of the employees of First Charter and its subsidiaries who become employees of Fifth Third, as a group, participation in employee benefit plans and arrangements available for similarly situated employees of Fifth Third. Former First Charter employees will be given credit for service with First Charter and its subsidiaries for purposes of eligibility, vesting and accrual of benefits. No former First Charter employee will be entitled to participate in the Fifth Third Bancorp Master Retirement Plan (which has been frozen to new participants).

Severance.

The merger agreement provides for the payment of severance amounts to certain employees of First Charter who do not have an employment, change-in-control or severance agreement under certain conditions upon termination of employment. During the period beginning at the effective time of the merger and ending six months following the effective time, such employees shall be entitled to receive severance payments and benefits in an amount and form as generally described in Fifth Third s severance policy in effect immediately before the date of the merger agreement (including customary releases); provided, that the maximum severance pay amounts described in such severance policy shall not apply and shall, instead, be limited to a maximum 52-week severance pay amount, regardless of employee classification; and provided further, that each such employee shall also be entitled to receive payment of COBRA premium costs for the continuation of group medical plan coverage for such employee and his or her eligible dependents for a period equal to the total number of weeks of base salary/wages available to such employee as severance pay.

No Dissenters or Appraisal Rights

First Charter is a North Carolina corporation. Under North Carolina law, shareholders of First Charter will not have any right to dissent from the merger or obtain payments of the fair value of their shares as a result of, or in connection with, the merger. See Proposal Merger of First Charter into Fifth Third Financial Corporation No Dissenters or Appraisal Rights.

Accounting

Fifth Third will account for the merger as a purchase. Under the purchase method of accounting, all the assets acquired and liabilities assumed of the acquired company are recorded at their respective fair values, as of the effective date of the transaction. The amount, if any, by which the purchase price paid by Fifth Third exceeds the fair value of the net tangible and identifiable intangible assets acquired by Fifth Third in the transaction is recorded as goodwill. Fifth Third will include the revenues and expenses of First Charter in its consolidated financial statements from the date of the consummation of the merger.

Regulatory Approvals

The merger is subject to the approval of the Federal Reserve Board and the prior approval of the North Carolina Commissioner of Banks. On September 18, 2007, we submitted applications for both approvals and also gave prior notice of the merger to the Georgia Department of Banking and Finance. As of the date of this document, we have not received the required approval of the Federal Reserve Board. The North Carolina Commissioner of Banks approved the merger on October 22, 2007.

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Comparative Market Prices and Dividends

Fifth Third common stock is traded on the NASDAQ Global Select Market System under the symbol FITB and First Charter common stock is traded on the NASDAQ Global Select Market System under the symbol FCTR. On August 15, 2007, the trading day immediately preceding the public announcement of the execution of the agreement setting forth the terms of the merger and on November 23, 2007, the most recent practicable trading day prior to the printing of this document, the closing market prices of Fifth Third common stock and First Charter common stock and the equivalent price per share of First Charter common stock giving effect to the merger were as follows:

	August 15, 2007	November 23, 2007
Fifth Third Common Stock	$ 37.38	$ 28.04
First Charter Common Stock	$ 20.25	$ 28.69
Equivalent Price Per Share of First Charter Common Stock	$ 31.00	$ 31.00

The Equivalent Price Per Share of First Charter Common Stock at each specified date in the above table is $31.00 because Fifth Third agreed to pay the fixed amount of $31.00 regardless of any fluctuation in the market price of Fifth Third common stock prior to the effective time of the merger. See Proposal Merger of First Charter into Fifth Third Financial Corporation Background of the Merger. You should obtain current market quotations for shares of Fifth Third common stock and First Charter common stock prior to making any decisions with respect to the merger.

The following table sets forth (in per share amounts), for the calendar quarters indicated, the high and low sales prices and the cash dividends declared during each quarterly period.

	Fifth Third Common Stock			First Charter Common Stock		
	High	Low	Dividends Declared	High	Low	Dividends Declared
2005:						
First Quarter	$ 48.12	$ 42.05	$ 0.350	$ 26.04	$ 21.91	$ 0.190
Second Quarter	44.67	40.24	0.350	23.34	20.43	0.190
Third Quarter	43.99	36.38	0.380	25.84	21.75	0.190
Fourth Quarter	42.50	35.04	0.380	26.95	22.04	0.190
2006:						
First Quarter	$ 41.43	$ 36.30	$ 0.380	$ 25.13	$ 23.11	$ 0.190
Second Quarter	41.02	35.86	0.400	25.50	23.02	0.195
Third Quarter	40.18	35.95	0.400	24.82	22.93	0.195
Fourth Quarter	41.57	37.75	0.400	25.15	23.05	0.195
2007:						
First Quarter	$ 41.41	$ 37.93	$ 0.420	$ 24.97	$ 21.29	$ 0.195
Second Quarter	43.32	37.88	0.420	22.83	19.09	0.195
Third Quarter	41.17	33.60	0.420	30.58	17.78	0.195
Fourth Quarter (through November 23, 2007)	35.34	26.50		30.93	27.75	

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Comparative Per Share Data

The following table sets forth for Fifth Third common stock and First Charter common stock certain historical, pro forma and pro forma equivalent per share financial information. The pro forma and pro forma equivalent per share information gives effect to the merger as if the merger had been effective on the dates presented, in the case of the book value data, and as if the merger had been effective as of January 1, 2006, in the case of the earnings per share and the cash dividends declared per share data. The pro forma data in the tables assume that the merger is accounted for using the purchase method of accounting. The equivalent per share information is presented based on the conversion ratio of 1.1242 of a share of Fifth Third common stock for each share of First Charter common stock based on the average reported closing price per share of Fifth Third common stock on the five trading days ended November 23, 2007. See Proposal Merger of First Charter into Fifth Third Financial Corporation Merger Consideration for details regarding adjustments to the conversion ratio. This table should be read in conjunction with the historical financial statements, including the notes thereto, of Fifth Third, which information is presented elsewhere in this document and incorporated by reference into this document. See Where You Can Find More Information on page 141.

The pro forma information, while helpful in illustrating the financial characteristics of the continuation of Fifth Third and First Charter under one set of assumptions, does not attempt to predict or suggest future results. The pro forma information also does not attempt to show how Fifth Third and First Charter would actually have performed had the companies been combined throughout these periods.

	Fifth Third				**First Charter**		**Equivalent Shares Basis 1.1242 of a Share of Fifth Third Common Stock (5)**	
	Historical		**Pro Forma**		**Historical**		**Pro Forma(5)**	
	Basic	**Diluted**	**Basic(1)**	**Diluted(2)**	**Basic**	**Diluted**	**Basic**	**Diluted**
EARNINGS PER SHARE FROM CONTINUING OPERATIONS								
Twelve Months Ended December 31, 2006:	$ 2.13	$ 2.12	$ 2.10	$ 2.09	$ 1.50	$ 1.49	$ 2.36	$ 2.35
Nine Months Ended September 30, 2007	$ 1.96	$ 1.95	$ 1.91	$ 1.90	$ 0.93	$ 0.93	$ 2.15	$ 2.14
CASH DIVIDENDS DECLARED PER SHARE(3)								
Twelve Months Ended December 31, 2006:	$ 1.58		$ 1.58		$ 0.775		$ 1.78	
Nine Months Ended September 30, 2007:	$ 1.26		$ 1.26		$ 0.585		$ 1.42	
BOOK VALUE PER SHARE(4)								
At December 31, 2006:	$ 18.02		$ 18.47		$ 12.81		$ 20.76	

At September 30, 2007:	$ 17.45	$ 17.93	$ 13.16	$ 20.16

(1) The pro forma earnings per basic common share from continuing operations is computed by dividing pro forma income from continuing operations by the weighted average pro forma basic common shares of Fifth Third.

(2) The pro forma earnings per diluted common share from continuing operations is computed by dividing the total of pro forma income from continuing operations and the net income effect from dilutive securities by the weighted average pro forma diluted common shares of Fifth Third.

(3) Fifth Third pro forma cash dividends declared per share represent historical cash dividends declared per share by Fifth Third.

(4) The pro forma book value per share is computed by dividing the pro forma total shareholders equity of Fifth Third by total pro forma common shares of Fifth Third.

(5) First Charter equivalent pro forma per share amounts are computed by multiplying the Fifth Third pro forma amounts by the calculated conversion ratio of 1.1242 respectively.

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RISK FACTORS

In making your determination as to how to vote on the merger, you should consider the following factors:

Risks Relating to the Merger

The conversion ratio is variable and will fluctuate due to changes in the market price of Fifth Third common stock.

If you receive Fifth Third common shares as merger consideration you will receive a certain amount of shares of Fifth Third common stock for each share of First Charter common stock if the merger is completed. The conversion ratio is equal to $31.00 divided by the average market price of Fifth Third common stock for the five trading days ending on the trading day immediately before the closing of the merger. Changes in the price of Fifth Third common stock from the date of the merger agreement, from the date of this proxy statement/prospectus and from the date of the special meeting will affect the conversion ratio and, thus, the number of Fifth Third common shares that you receive as merger consideration. Fifth Third s stock price may increase or decrease before and after the effective time of the merger due to a variety of factors, including, without limitation, general market and economic conditions, changes in Fifth Third s businesses, operations and prospects and regulatory considerations. Many of these factors are beyond Fifth Third s control.

First Charter shareholders may receive a form of consideration different from what they elect.

The consideration to be received by First Charter shareholders in the merger is subject to the requirement that the value of the stock portion of the merger consideration be equal to approximately 70% of the total value of merger consideration and the cash portion of the merger consideration be equal to approximately 30%, but in no event more than 30% of the total merger consideration. The merger agreement contains proration and allocation methods to achieve this desired result. If you elect all cash and the available cash is oversubscribed, then you will receive a portion of the merger consideration in Fifth Third common stock. If you elect all stock and the available stock is oversubscribed, then you will receive a portion of the merger consideration in cash. Furthermore, if you elect to receive a combination of both cash and stock and the available cash is oversubscribed or undersubscribed, then you will receive a combination of merger consideration that differs from your election. Accordingly, there is a risk that you will not receive a portion of the merger consideration in the form that you elect, which could result in, among other things, tax consequences that differ from those that would have resulted had you received the form of consideration you elected (including the recognition of gain for income tax purposes with respect to the cash received).

The value of First Charter common stock may vary in the future.

If the merger is not completed, the value of First Charter common stock could increase or decrease in the future. Such value could be either higher or lower than the merger consideration being offered by Fifth Third in the merger.

The merger agreement limits First Charter s ability to pursue alternatives to the merger.

The merger agreement contains terms and conditions that make it more difficult for First Charter to be sold to a party other than Fifth Third. These provisions impose restrictions that prevent First Charter from seeking another acquisition proposal and that, subject to certain exceptions, limit First Charter s ability to discuss, facilitate or commit to competing third-party proposals to acquire all or a significant part of First Charter. See Terms of the Agreement Acquisition Proposals by Third Parties.

Fifth Third required First Charter to agree to these provisions as a condition to Fifth Third s willingness to enter into the merger agreement. These provisions, however, might discourage a third party that might have an interest in acquiring all or a significant part of First Charter from considering or proposing that acquisition even if it were prepared to pay consideration with a higher per share market price than the current proposed merger consideration, and the termination fee provided in the merger agreement and described herein might

result in a potential competing acquirer proposing to pay a lower per share price to acquire First Charter than it might otherwise have proposed to pay.

The fairness opinion obtained by First Charter from its financial advisor will not reflect changes in circumstances subsequent to the date of the merger agreement.

First Charter has obtained a fairness opinion dated as of August 15, 2007 from its financial advisor, Keefe, Bruyette & Woods, Inc. First Charter has not obtained and will not obtain an updated opinion as of the date of this document from Keefe, Bruyette & Woods, Inc. Changes in the operations and prospects of Fifth Third or First Charter, general market and economic conditions and other factors that may be beyond the control of Fifth Third and First Charter, and on which the fairness opinion was based, may alter the value of Fifth Third or First Charter or the price of shares of Fifth Third common stock or First Charter common stock by the time the merger is completed. The opinion does not speak to the time the merger will be completed or to any other date other than the date of such opinion. As a result, the opinion will not address the fairness of the merger consideration, from a financial point of view, at the time the merger is completed. For a description of the opinion that First Charter received from Keefe, Bruyette & Woods, Inc., please refer to Proposal Merger of First Charter into Fifth Third Financial Corporation Opinion of First Charter s Financial Advisor beginning on page 26 of this document.

First Charter s shareholders will not control Fifth Third s future operations.

First Charter s shareholders collectively own 100% of First Charter and, in the aggregate, have the absolute power to approve or reject any matters requiring the adoption or approval of shareholders under North Carolina law and First Charter s Amended and Restated Articles of Incorporation. After the merger, First Charter s shareholders in the aggregate will hold approximately 5.0% of the outstanding shares of Fifth Third common stock. Accordingly, even if all of the former First Charter shareholders voted in concert on all matters presented to Fifth Third s shareholders from time to time, the former First Charter shareholders will not likely have a significant impact on the election of directors or whether future Fifth Third proposals are approved or rejected.

The directors and executive officers of First Charter will have economic interests in the merger that are different from, or in addition to the merger consideration received by all other First Charter shareholders.

First Charter s executive officers negotiated the terms of the merger agreement with their counterparts at Fifth Third, and First Charter s Board of Directors adopted and approved the merger agreement and is recommending that the First Charter shareholders vote for the merger agreement. You should be aware that these executive officers and directors have economic interests in the merger in addition to the interests they share with you as a First Charter shareholder.

Certain officers and directors of First Charter will receive, among other things, severance agreements, employment agreements, change-in-control payments, accelerated stock option vesting and lapses of restrictions on restricted stock in connection with the merger. Furthermore, some of such officers shall receive a cash payment of their performance share awards, based on the assumptions that the performance period ends on the effective date of the merger and that First Charter has met 100% of its performance targets. In addition, directors of First Charter will continue to receive certain advisory or director fees for a period of one year after the effective date of the merger. See Terms of the Agreement Interests of First Charter s Directors and Executive Officers in the Merger. Accordingly, First Charter s directors and certain executive officers may have interests in the merger that are different from, or in addition to, yours.

Fifth Third has not previously operated in the Charlotte metropolitan market area.

First Charter s primary market area is located within North Carolina and is centered primarily around the Charlotte Metro region, including Mecklenburg County and its surrounding counties. The banking business in this market area is extremely competitive, and the level of competition may increase further. Fifth Third has

not previously participated in this market and there may be unexpected challenges and difficulties that could adversely affect Fifth Third following the consummation of the merger.

Additional Risks

For additional risk factors relating to Fifth Third, reference is made to the Fifth Third Annual Report on Form 10-K/A for the year ended December 31, 2006 and Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007, June 30, 2007 and September 30, 2007.

FORWARD-LOOKING STATEMENTS

This document, including information incorporated by reference into this document, contains or incorporates statements that Fifth Third believes are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Rule 175 promulgated thereunder, and Section 21E of the Securities Exchange Act of 1934, as amended, and Rule 3b-6 promulgated thereunder. These statements relate to Fifth Third s financial condition, results of operations, plans, objectives, future performance or business. They usually can be identified by the use of forward-looking language such as will likely result, may, are expected to, is anticipated, estimate, forecast, projected, intends to, or may include other similar words or phrases such as believes, plans, objective, continue, remain, or similar expressions, or future or conditional verbs such as will, would, should, might, can, or similar verbs. You should not place undue reliance on these statements, as they are subject to risks and uncertainties, including but not limited to those described in this document, or the documents incorporated by reference, including the risk factors set forth in our most recent Annual Report on Form 10-K/A. When considering these forward-looking statements, you should keep in mind these risks and uncertainties, as well as any cautionary statements Fifth Third may make. Moreover, you should treat these statements as speaking only as of the date they are made and based only on information then actually known to Fifth Third.

There are a number of important factors that could cause future results to differ materially from historical performance and these forward-looking statements. Factors that might cause such a difference include, but are not limited to: (1) general economic conditions, either national or in the states in which Fifth Third, one or more acquired entities and/or the combined company do business, are less favorable than expected; (2) political developments, wars or other hostilities may disrupt or increase volatility in securities markets or other economic conditions; (3) changes in the interest rate environment reduce interest margins; (4) prepayment speeds, loan origination and sale volumes, charge-offs and loan loss provisions; (5) our ability to maintain required capital levels and adequate sources of funding and liquidity; (6) changes and trends in capital markets; (7) competitive pressures among depository institutions increase significantly; (8) effects of critical accounting policies and judgments; (9) changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies; (10) legislative or regulatory changes or actions, or significant litigation, adversely affect Fifth Third, one or more acquired entities and/or the combined company or the businesses in which Fifth Third, one or more acquired entities and/or the combined company are engaged; (11) ability to maintain favorable ratings from rating agencies; (12) fluctuation of Fifth Third s stock price; (13) ability to attract and retain key personnel; (14) ability to receive dividends from its subsidiaries; (15) potentially dilutive effect of future acquisitions on current shareholders ownership of Fifth Third; (16) effects of accounting or financial results of one or more acquired entities; (17) difficulties in combining the operations of acquired entities; (18) ability to secure confidential information through the use of computer systems and telecommunications networks; and (19) the impact of reputational risk created by these developments on such matters as business generation and retention, funding and liquidity.

You should refer to our periodic and current reports filed with the Securities and Exchange Commission, or SEC, for further information on other factors that could cause actual results to be significantly different from those expressed or implied by these forward-looking statements. See Where You Can Find More Information on page 141.

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THE SPECIAL MEETING

This document and the accompanying proxy card are being furnished to you in connection with the solicitation by the Board of Directors of First Charter of proxies to be used at the special meeting to be held at 10:00 a.m., Eastern time, January 18, 2008, the First Charter Center, 10200 David Taylor Drive, Charlotte, North Carolina 28262-2373, and at any adjournments thereof. This document and the enclosed notice of First Charter s special meeting and proxy card are first being sent to you on or about December 3, 2007.

Purpose of the Meeting

The purpose of the special meeting of First Charter s shareholders is to vote upon the approval of the merger agreement relating to the merger of First Charter with and into Fifth Third Financial Corporation and other transactions contemplated thereby and to vote upon the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies. First Charter s shareholders also may consider and vote upon such other matters as are properly brought before the special meeting. As of the date of this document, the First Charter Board of Directors knows of no business that will be presented for consideration at the special meeting, other than matters described in this document.

Voting and Revocability of Proxies

The First Charter Board of Directors has fixed the close of business on November 26, 2007 as the record date for shareholders entitled to notice of and to vote at the special meeting. Only holders of record of First Charter common stock on that record date are entitled to notice of and to vote at the special meeting. Each share of First Charter common stock you own entitles you to one vote. On the record date, 34,802,684 shares of First Charter common stock were outstanding and entitled to vote at the special meeting, held by approximately 6,930 shareholders of record.

Voting Procedures

Registered shareholders: Registered shareholders may vote their shares or submit a proxy to have their shares voted by one of the following methods:

By Mail. You may submit a proxy by signing, dating and returning your proxy card in the enclosed pre-addressed envelope.

By Telephone. You may submit a proxy by telephone (from U.S. and Canada only) using the toll-free number listed on the proxy card. Please have your proxy card in hand when you call. Telephone voting facilities will be available 24 hours a day and will close at 11:59 p.m., Eastern time, on January 17, 2008.

By Internet. You may submit a proxy electronically on the Internet, using the web site listed on the proxy card. Please have your proxy card in hand when you log onto the web site. Internet voting facilities will be available 24 hours a day and will close at 11:59 p.m., Eastern time, on January 17, 2008.

In Person. You may vote in person at the special meeting by completing a ballot (attending the meeting without completing a ballot will not count as a vote).

Street-name shareholders: If you hold your shares through a broker, bank or custodian, you are considered a street-name shareholder. Street-name shareholders may generally vote their shares or submit a proxy to have their shares voted by one of the following methods:

By Mail. You may submit a proxy by signing, dating and returning your proxy card in the enclosed pre-addressed envelope.

By Methods Listed on Proxy Card. Please refer to your proxy card or other information forwarded by your bank, broker or other holder of record to determine whether you may submit a proxy by telephone

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or electronically on the Internet, following the instructions on the proxy card or other information provided by the record holder.

In Person with a Proxy from the Record Holder. A street-name shareholder who wishes to vote in person at the meeting will need to obtain a legal proxy from their bank, broker or other nominee. Please consult the voting form or other information sent to you by your bank, broker or other nominee to determine how to obtain a legal proxy in order to vote in person at the special meeting.

Proxies solicited by the First Charter Board of Directors will be voted in accordance with the directions given on the proxy cards. **If you sign and date your proxy card but do not indicate your vote on the proxy card, your proxy will be voted FOR approval of the merger agreement at the special meeting and FOR the adjournment or postponement of the meeting, if necessary or appropriate to solicit additional proxies.** The proxies confer discretionary authority on the persons named on the proxy cards to vote First Charter common stock with respect to matters incident to the conduct of the special meeting. If any other business is presented at the special meeting, proxies will be voted in accordance with the discretion of the proxy holders. Proxies marked as abstentions will have the same effect as a vote against the proposal to approve the merger agreement at the special meeting. If you do not return your proxy card, or vote at the special meeting, it will have the same effect as if you voted against the merger agreement.

Revoking Your Proxy

If you are a registered shareholder, you may revoke your proxy at any time before the shares are voted at the meeting by:

timely delivery of a valid, later-dated executed proxy;

timely submitting a proxy with new voting instructions using the telephone or Internet voting system;

voting in person at the meeting by completing a ballot (attending the special meeting without completing a ballot will not revoke any earlier proxy); or

filing an instrument of revocation received by the Corporate Secretary of First Charter, 10200 David Taylor Drive, Charlotte, North Carolina 28262-2373, at any time before your shares are voted at the special meeting.

If you are a street-name shareholder and you vote by proxy, you may later revoke your proxy instructions by informing the holder of record in accordance with that entity s procedures.

Special Meeting Admission

If you wish to attend the special meeting in person, you must present a form of personal identification. If you are a beneficial owner of common stock that is held by a bank, broker or other nominee, you will also need proof of ownership to be admitted to the meeting. A recent brokerage statement or a letter from your bank or broker are examples of proof of ownership. No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the meeting.

Vote Required

The First Charter Amended and Restated Articles of Incorporation require that in order to consolidate with, or merge with or into, any other corporation, First Charter s shareholders must approve such merger by the affirmative vote of

not less than 75% of the aggregate voting power of the outstanding stock entitled to vote. If any shareholder entitled to vote is a person who is the beneficial owner of more than 20% of the voting power of First Charter and if, prior to the acquisition of 20% of the voting power of First Charter by a shareholder, the Board of Directors of First Charter had not unanimously approved such consolidation or merger, then the merger or consolidation must be approved by the affirmative vote of not less than 75% of the aggregate voting power of the outstanding stock entitled to vote, which shall include the affirmative vote of at least 50% of the voting power of the outstanding stock of shareholders entitled to vote other than individual shareholders who are the beneficial owners of 20% or more of the voting power of First Charter. Since First

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Charter does not have any individual shareholders that are the beneficial owners of 20% or more of its voting power, the affirmative vote of 75% of the aggregate voting power of the outstanding stock of First Charter entitled to vote is the only vote required to approve the merger agreement. **The First Charter Board of Directors recommends that First Charter shareholders vote FOR approval of the merger agreement.**

Because approval of the merger agreement requires the affirmative vote of 75% of the aggregate voting power of the outstanding common stock of First Charter entitled to vote, abstentions and failures to vote will have the same effect as votes against the proposal. Under National Association of Securities Dealers, Inc. conduct rules, your broker may not vote your shares on the First Charter proposal to approve the merger agreement without instructions from you. Without your voting instructions, a broker non-vote will occur. Broker non-votes have the same effect as votes against the proposal. However, broker non-votes, abstentions and failures to vote are counted for purposes of determining whether a quorum is present.

The proposal to adjourn or postpone the special meeting, if necessary or appropriate to solicit additional proxies, requires the affirmative vote of the record holders of a majority of the voting power present and entitled to vote at the special meeting. **The First Charter Board of Directors recommends that First Charter shareholders vote FOR the approval of any proposal to adjourn or postpone the special meeting, if necessary or appropriate.**

As of the record date, approximately 1,343,662 shares of First Charter common stock (representing 3.86% of the votes entitled to be cast at the special meeting) were beneficially held by directors and executive officers of First Charter. Subsidiaries of First Charter beneficially owned approximately 668,688 shares (representing 1.92% of the shares entitled to vote at the special meeting) of First Charter common stock in various fiduciary capacities as of the record date, of which those subsidiaries have sole or shared voting power.

Solicitation of Proxies

First Charter will bear all of the costs of soliciting proxies. However, Fifth Third and First Charter will bear equally the expenses of printing and mailing this document. In addition to soliciting proxies by mail, Morrow & Co., LLC, a proxy solicitation firm, will assist First Charter in soliciting proxies for the special meeting. First Charter will pay approximately $20,000, plus per item and out-of-pocket expenses, for these services. First Charter will, upon request, reimburse brokers, banks and other nominees for their expenses in sending proxy materials to their customers who are beneficial owners and obtaining their voting instructions. Additionally, directors, officers and employees of First Charter may solicit proxies personally and by telephone. None of these persons will receive additional or special compensation for soliciting proxies.

Do not send in any stock certificates with your proxy card. Prior to the effective time of the merger, the exchange agent will mail election forms and transmittal forms with instructions for the surrender of stock certificates for First Charter common stock to all record holders of First Charter common stock. If you make no election or revoke your election prior to the effective time, the exchange agent will mail transmittal forms with instructions for the surrender of stock certificates for First Charter common stock to former First Charter shareholders promptly following the effective time.

PROPOSAL MERGER OF FIRST CHARTER INTO FIFTH THIRD FINANCIAL CORPORATION

The following description summarizes all material terms of the merger agreement. We urge you to read the merger agreement, a copy of which is attached as Annex A to this document and is incorporated by reference into this document.

Structure of the Merger

Upon completion of the merger, First Charter will merge with and into Fifth Third Financial Corporation and First Charter will cease to exist as a separate entity. Fifth Third may change the method of effecting the combination (including by providing for the merger of First Charter into a different wholly owned subsidiary of Fifth Third) if and to the extent Fifth Third deems such change desirable.

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Corporate Governance

After the merger is completed, the directors and officers of Fifth Third Financial who were in office prior to the effective time of the merger will continue to serve as the directors and officers, respectively, of Fifth Third Financial for the term for which they were elected, subject to Fifth Third Financial s code of regulations and in accordance with law.

Merger Consideration

Each share of First Charter common stock (excluding shares owned directly by First Charter or Fifth Third except for any First Charter shares held by them in a fiduciary capacity) that is issued and outstanding immediately prior to the effective time of the merger will be cancelled and converted, by virtue of the merger and without any further action, into the right to receive either $31.00 worth of Fifth Third common stock or $31.00 in cash based on the election of First Charter shareholders. You can also elect to receive a mix of Fifth Third common stock and cash worth $31.00 in return for each First Charter common share. However, if you elect all or part of your merger consideration to be in the form of Fifth Third common stock, the number of shares that you will receive in the merger will fluctuate between the date of this document and the closing of the merger. Furthermore, the amount of cash paid to First Charter shareholders is limited to 30%, but in no event more than 30%, of the total merger consideration paid and the value of the Fifth Third common stock paid to First Charter shareholders is limited to approximately 70% of the merger consideration paid. Therefore, it is possible that if you elect to be paid in cash, you may receive a portion or all of your payment in Fifth Third common stock or that if you elect to be paid in Fifth Third common stock, you may receive a portion or all of your payment in cash.

If you fail to make an election to receive either Fifth Third common stock or cash, you will receive consideration of Fifth Third common stock and/or cash on a pro rata basis as determined by the exchange agent. The pro rata selection process shall consist of such equitable pro ration processes as shall be mutually determined by First Charter and Fifth Third before the effective time of the merger. If you fail to make an election, you shall receive a combination of merger consideration that does not cause the total amount of cash paid to First Charter shareholders to exceed 30% of the total merger consideration and does not cause the total value of Fifth Third common stock paid to First Charter shareholders to be less than 70% of the total merger consideration paid.

If, after all First Charter shareholders have submitted their elections, the amount of Fifth Third common stock is oversubscribed, all First Charter shareholders who elected to receive cash will receive cash. In addition, all First Charter shareholders who chose no election or made no election will receive cash. Next, the exchange agent will select a sufficient number of shares to receive cash instead of Fifth Third common stock from any shares that elected to receive Fifth Third common stock. This selection will be determined such that the aggregate cash amount paid will equal as closely as possible, but in no event more than, 30% of the total merger consideration. All other shares that are not selected by the exchange agent will receive Fifth Third common stock.

If, after all First Charter shareholders have submitted their elections, the amount of cash is oversubscribed, all First Charter shareholders who elected to receive Fifth Third common stock will receive such stock. In addition, all First Charter shareholders who chose no preference or made no election will receive Fifth Third common stock. Next, the exchange agent will select on a pro rata basis a sufficient number of shares to receive Fifth Third common stock instead of cash among any shares that elected to receive cash. This selection will be determined such that the aggregate cash amount paid will equal as closely as possible, but in no event more than, 30% of the total merger consideration. All other shares that are not selected by the exchange agent will receive cash.

Each share of Fifth Third common stock issued and outstanding prior to the merger will remain issued and outstanding and will not be converted or exchanged in the merger.

The conversion ratio is equal to $31.00 divided by the average market price of Fifth Third common stock for the five trading days ending on the trading day immediately before the closing of the merger. Changes in

the price of Fifth Third common stock from the date of the merger agreement, from the date of this proxy statement/prospectus and from the date of the special meeting will affect the conversion ratio and thus, the number of Fifth Third common shares exchanged for First Charter shares as merger consideration.

No Fractional Shares

Only whole shares of Fifth Third common stock will be issued in connection with the merger. In lieu of fractional shares, each holder of First Charter common stock otherwise entitled to a fractional share of Fifth Third common stock will be paid, without interest, an amount of cash equal to the amount of this fraction multiplied by $31.00. No shareholder will be entitled to interest, dividends, voting rights or other rights in respect of any fractional share.

Effective Time of the Merger

Unless we agree otherwise, the effective time of the merger will occur on a day specified by the parties that is not more than five business days after all conditions contained in the merger agreement have been met or waived, including the expiration of all applicable regulatory waiting periods. It is anticipated that the effective time of the merger will occur in the first quarter of 2008, although no assurance can be given in this regard. First Charter and Fifth Third each will have the right, but not the obligation, to terminate the merger agreement if the merger does not occur on or before August 15, 2008, provided the terminating party is not in material breach or default of any representation, warranty or covenant contained in the merger agreement on the date of such termination.

Exchange of Certificates

After the effective time of the merger, you will cease to have any rights as a shareholder of First Charter, and your sole right will be the right to receive the merger consideration, into which your shares of First Charter common stock will have been converted by virtue of the merger. If you have properly made an election as to the type of merger consideration that you desire to receive and have delivered your stock certificates to the exchange agent, the exchange agent will send to you promptly following the effective time your share of the merger consideration adjusted as set forth above if necessary.

If you have not already sent in your stock certificates with your election form, as soon as reasonably practicable after the effective time of the merger, the exchange agent will send to you a notice and letter of transmittal for use in submitting to the exchange agent certificates formerly representing shares of First Charter common stock to be exchanged for either shares of Fifth Third common stock (and, to the extent applicable, cash in lieu of fractional shares of Fifth Third common stock) and/or cash to which you are entitled to receive as a result of the merger and any applicable proration procedure. This notice and letter of transmittal shall specify that delivery shall be effected, and risk of loss and title to the stock certificates shall pass, only upon proper delivery of such certificates to the exchange agent. You will also receive instructions for handling share certificates that have been lost, stolen, destroyed or mislaid. You will not be entitled to receive any dividends or other distributions that may be payable to holders of record of Fifth Third common stock following the effective time of the merger until you have surrendered and exchanged your certificates (or, in the case of lost, stolen, destroyed or mislaid share certificates, such documentation as is required by Fifth Third) evidencing ownership of First Charter common stock. In the event all or a portion of your merger consideration is in Fifth Third common stock, any dividends payable on Fifth Third common stock after the effective time of the merger will be paid to the exchange agent and, upon receipt of the certificates (or, in the case of lost, stolen, destroyed or mislaid share certificates, such documentation as is required by Fifth Third) representing First Charter common stock, subject to any applicable escheat or similar laws relating to unclaimed funds, the exchange agent will forward to you (1) statements indicating book entry ownership of Fifth Third common stock, (2) dividends declared thereon subsequent to the effective time of the merger, without interest, and (3) the cash value of any fractional shares, without interest. In the event all or a portion of your merger consideration is in cash upon

receipt of the certificates (or, in the case of lost, stolen, destroyed or mislaid share certificates, such documentation as is required by Fifth Third) representing First Charter common stock, subject to any applicable escheat or similar laws relating to unclaimed funds, the exchange agent will forward

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to you the applicable amount of cash without interest. ***You should not submit First Charter share certificates until you have received written instructions to do so.***

First Charter shareholders who receive shares of Fifth Third common stock as all or part of the merger consideration payable to them will receive statements indicating book entry ownership of Fifth Third common stock. If desired, those shareholders may request instead to receive a Fifth Third stock certificate by notifying the exchange agent by phone, mail or as otherwise set forth on the book entry statement.

At the effective time of the merger, the stock transfer books of First Charter will be closed and no transfer of First Charter common stock will thereafter be made on First Charter s stock transfer books other than to settle transfers of First Charter common stock that occurred before the effective time. If a certificate formerly representing First Charter common stock is presented to Fifth Third, it will be forwarded to the exchange agent for cancellation and exchange for the merger consideration.

Background of the Merger

First Charter s Board of Directors regularly considered various strategic options directed at increasing shareholder value and maximizing First Charter s return on equity. At various times, this has included discussions relating to the possible acquisition of smaller institutions by First Charter, de novo entry into new markets not served by First Charter, strategic combinations with similarly sized financial institutions and the merger of First Charter with a larger financial institution.

Also, from time to time in the past, First Charter has been contacted informally by larger banks and their advisors to introduce themselves, to discuss industry matters of mutual interest and to gauge generally First Charter s possible interest in exploring a potential business combination transaction. Those potentially interested banks included Fifth Third, whose Chief Financial Officer, Christopher G. Marshall, contacted Mr. James by telephone several times in the fourth quarter of 2006 and the first half of 2007. Mr. Marshall and Kevin T. Kabat, Fifth Third s Chief Executive Officer, met with Mr. James on March 7, 2007 and June 7, 2007. Fifth Third also engaged McColl Partners and Goldman Sachs to serve as Fifth Third s financial advisors in evaluating a possible acquisition of First Charter. However, notwithstanding Fifth Third s overtures, prior to June 15, 2007, First Charter continued to view itself as a potential acquiror of other financial institutions.

As part of the First Charter Board s ongoing strategic planning process described above, its Executive Committee conducted a planning retreat on June 15, 2007. As part of the agenda, the Executive Committee discussed First Charter s performance and various alternatives designed to achieve growth. A representative of Keefe, Bruyette & Woods, Inc. (KBW) was also present for a portion of the meeting to provide an analysis of numerous bank acquisition targets First Charter was considering acquiring. KBW also presented an overview of the banking industry, with focus on subjects such as earnings growth, the current regulatory environment, increased competition from banks and nonbanks, industry risks and the issue of continuing industry consolidation. Thereafter, KBW provided a report regarding a wide range of strategic alternatives. Following thereafter, the Executive Committee concluded not to pursue the various acquisition opportunities it was analyzing. Instead, the Executive Committee requested that management update First Charter s three-year strategic plan and that KBW prepare a more detailed analysis of strategic alternatives (including acquisition alternatives, de novo growth and the possible sale of First Charter). The Executive Committee requested a presentation of this information at the Executive Committee s next meeting scheduled for June 26, 2007. Further, Robert E. James, Jr., President and Chief Executive Officer, informed the Executive Committee that he would consult with outside legal counsel to assist with the legal aspects of the consideration of strategic alternatives.

On June 26, 2007, at a meeting of the Executive Committee of First Charter s Board of Directors, Mr. James presented management s updated three-year strategic plan. KBW presented a report on strategic alternatives potentially available to First Charter. Helms Mulliss & Wicker, PLLC (HMW), outside counsel to First Charter, reviewed with the Executive Committee the legal and fiduciary considerations relating to the Board s consideration of the various strategic alternatives.

On June 27, 2007, at a regular meeting of the First Charter Board of Directors, all of the information that was presented at the June 26th Executive Committee meeting was provided to the Board of Directors. Following extensive discussion, the Board authorized management to explore strategic alternatives (including the alternative of remaining independent), authorized the engagement of KBW as First Charter s financial advisor and appointed an Evaluation Committee composed of three non-employee directors to assist in the consideration of First Charter s strategic alternatives and to interact with First Charter s management and legal and financial advisors in so doing.

Over ensuing days, KBW engaged in confidential conversations with eight financial institutions, on an anonymous basis, to gauge whether there was interest in a strategic partnership with an entity such as First Charter. After confidentiality agreements had been signed by five institutions, KBW provided them limited information regarding First Charter and formally solicited proposals for the potential acquisition of First Charter. Four of the financial institutions approached by KBW, including Fifth Third, submitted initial indications of interest on July 16, 2007.

On July 18, 2007, at a specially called meeting, the Board of Directors met with First Charter s Executive Vice President, General Counsel and Corporate Secretary, Stephen J. Antal, HMW and KBW present, at which time KBW made presentations regarding the financial institutions that had submitted indications of interest and compared the indications of interest that were submitted, including a discussion of pricing and structure differences and the financial performance and business prospects of each potential partner. After considering all of the relevant factors, including the social and economic interests of First Charter s employees, customers, suppliers, shareholders, other constituents and the communities in which First Charter operates or is located, the Board of Directors decided to pursue discussions and to conduct due diligence with two of the financial institutions that had expressed interest. Of the two financial institutions with which First Charter determined to pursue discussions, one provided an indication of interest with a fixed value of $30.00 per First Charter share and the other provided an indication of interest with an implied value of $32.00 per First Charter share. Other parties whose indications of interest were lower (including Fifth Third) were informed that they were not being invited to participate further in the process.

Between July 27 and August 14, the two potential strategic partners conducted due diligence on First Charter and First Charter conducted due diligence on the potential strategic partners. On August 7, 2007, KBW distributed instructions to the interested parties regarding a request for final bids. At this time, a draft merger agreement was distributed to the interested parties.

Numerous times during late July and early August, the Evaluation Committee of the Board of Directors, Messrs. James and Antal, HMW and KBW met to discuss the ongoing due diligence process and the bids that were received at various times during the process.

On August 10, 2007, the deadline for the submission of final bids, one interested party submitted a bid with a fixed value of $28.00 per First Charter share (with an aggregate maximum of 50% of the merger consideration to be in stock), which was less than its initial indication of interest of a fixed value of $30.00 per First Charter share. This party also submitted its comments on the proposed Agreement and Plan of Merger previously circulated by HMW. The other interested party that conducted due diligence elected not to submit a final bid at that time as a result of stock market conditions that had adversely impacted its company s stock price and the stock market generally. Because the only final bid was comparable to the initial bids of two other bidders who had not been invited to conduct due diligence (and indeed less than Fifth Third s initial bid), the Evaluation Committee of the Board of Directors authorized KBW to contact Fifth Third to determine if it had any further interest in pursuing a transaction with First Charter.

Later that day, upon being contacted by KBW, Fifth Third expressed continued interest in First Charter at the price offered in its initial indication of interest of $29.00 per First Charter share (with an aggregate maximum of 30% of the

merger consideration to be in cash), subject to completion of due diligence. That same day, KBW also contacted the party that submitted the bid of $28.00 per share. After that conference, the interested party resubmitted its final indication of interest having increased the price it was willing to pay to $30.00 per share of First Charter common stock, such offer to expire at 6:00 p.m. on August 15, 2007. First Charter s legal advisors thereafter continued to negotiate a definitive agreement with that party.

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On August 12, 2007, the Board of Directors, along with Messrs. James and Antal and First Charter s legal and financial advisors, met to consider the resubmitted indication of interest received on August 10 as well as Fifth Third s further expression of interest in exploring a transaction with First Charter. During that meeting, KBW presented a report on market conditions, the potentially interested financial institutions and the offer terms. First Charter s legal advisors discussed the legal standards applicable to the decisions made by the Board of Directors and actions taken with respect to the proposed transaction. Following review and discussion, the Board of Directors voted to pursue negotiations with the interested party that had submitted its indication of interest on August 10, 2007 at $30.00 per First Charter share. KBW was instructed to inform Fifth Third that another entity was the successful bidder.

The following morning, August 13, 2007, Fifth Third contacted KBW to express continued interest in First Charter and to inform KBW that it was raising its indication of interest to a fixed value of $31.00 per share, contingent upon conducting further due diligence. At meetings later that day, the Evaluation Committee, and later the Board of Directors, authorized KBW to invite Fifth Third to conduct due diligence and to inform Fifth Third that the deadline for completion of due diligence and executing a definitive merger agreement would be 6:00 p.m. on August 15, 2007. The Board further charged its legal and financial advisors to continue negotiating a definitive agreement with the first interested party.

On the morning of August 14, 2007, Fifth Third conducted on-site due diligence and met with First Charter management. In addition, Fifth Third was provided a draft of the merger agreement for review and comment. Simultaneously with this process, First Charter conducted due diligence regarding Fifth Third by reviewing publicly available information about Fifth Third and through conversations with certain Fifth Third officers.

Meanwhile, after the First Charter Board had authorized inviting Fifth Third to conduct due diligence, KBW contacted the first interested party to apprise it of the appearance of another higher bidder. That party responded by sending a letter accelerating the expiration of its offer to noon, August 15, 2007. First Charter notified Fifth Third that its deadline was also so accelerated.

Throughout the remainder of August 14 and that night, First Charter s management team and legal and financial advisors worked separately to complete negotiation of a definitive merger agreement with both the first interested party and Fifth Third.

On the morning of August 15, 2007, First Charter s Board of Directors and Messrs. James and Antal received presentations from KBW and HMW addressing the progress of negotiations with Fifth Third and the other interested party. Considering all the elements of the two sets of negotiations, including the superior price indicated by Fifth Third, the Board of Directors determined to discontinue discussions with the first interested party and proceed solely with Fifth Third to finalize negotiations. Fifth Third s Board of Directors also met on August 15, 2007 and approved the $31.00 bid and the proposed merger agreement.

Later on August 15, 2007, at a reconvened meeting of the First Charter Board of Directors, KBW delivered an oral opinion, which was later confirmed in writing (such opinion is attached as Annex B hereto), that the bid price of $31.00 per First Charter share offered by Fifth Third was fair from a financial point of view to the First Charter shareholders. Representatives of HMW and Mr. Antal discussed certain legal matters with the First Charter Board of Directors, including the directors fiduciary obligations, the key terms of the merger agreement and regulatory and shareholder approvals required to complete the merger. After considering all of the relevant factors, including the KBW opinion, social and economic interests of First Charter s employees, customers, suppliers, shareholders, other constituents and the communities in which First Charter operates or are located, the Board of Directors unanimously approved the transaction with Fifth Third and the definitive Agreement and Plan of Merger presented by First Charter s legal advisors. Fifth Third and First Charter signed the Agreement and Plan of Merger later that evening.

On August 16, 2007, Fifth Third and First Charter announced the signing of the Agreement and Plan of Merger, dated as of August 15, 2007, before the stock market opened. On September 14, 2007, Fifth Third and First Charter entered into the Amended and Restated Agreement and Plan of Merger (attached hereto as Exhibit A) to change the structure of the merger such that First Charter will merge into Fifth Third Financial Corporation, a wholly owned subsidiary of Fifth Third.

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First Charter s Reasons for the Merger

In evaluating and determining to approve the merger agreement, the First Charter Board of Directors, with the assistance of its financial and legal advisors, considered a variety of factors and based their opinion as to the fairness of the transactions contemplated by the merger agreement primarily on the following factors:

the merits of other strategic options available to First Charter, including continuing as an independent entity by growing organically and growing through potential acquisitions;

the opinion delivered to First Charter by KBW to the effect that, as of August 15, 2007, and based upon and subject to the considerations set forth in the opinion, the merger consideration specified in the merger agreement was fair to the holders of First Charter common stock from a financial point of view;

detailed analyses of similar transactions, which demonstrated that the principal financial and business terms of the merger were comparable;

the low probability of receiving more favorable merger offers from other financial institutions in the near future due to the thorough market-testing process that the First Charter Board of Directors had completed;

the expected compatibility of cultures, management and similar business philosophies of Fifth Third and First Charter;

the compensation and employee benefits that current employees of First Charter would receive as employees of Fifth Third and the potential disruption to employees as compared to an in-market acquirer;

the improved career opportunities for employees of First Charter at a larger financial institution such as Fifth Third;

the potential benefits to be received by First Charter s customers from the merger as a result of the increased product offerings available from a larger financial institution such as Fifth Third;

the benefits to the communities in which First Charter operates due to the expected effects on First Charter s employees and customers;

the competitive and regulatory environment for financial institutions generally and the increased competition brought about by consolidation, deregulation and other factors, as well as the financial size and resources necessary to compete in this environment;

First Charter s due diligence review of Fifth Third and Fifth Third s proven track record of successfully consummating and integrating merger transactions in a timely manner;

the regulatory and other approvals required in connection with the merger and the significant likelihood that, once the definitive merger agreement had been entered into, the merger would be completed;

the expected treatment of the merger as a reorganization for United States federal income tax purposes, which would generally allow First Charter shareholders receiving Fifth Third common stock in exchange for their shares of First Charter common stock to avoid recognizing any gain or loss for federal income tax purposes (except with respect to cash received in lieu of fractional shares and cash received pursuant to a cash election);

the fact that the consideration payable in the transaction will be valued at $31.00 per share at the time of closing;

Fifth Third s history of paying dividends on its common stock;

the fact that Fifth Third s common stock has greater liquidity than First Charter s common stock;

the challenges of combining the businesses, assets and workforces of the two companies and Fifth Third s successful experience in this regard; and

the proposed employment arrangements with Robert E. James, Jr., Stephen M. Rownd and J. Scott Ensor, and the fact that some of First Charter s directors and executive officers have other interests in the merger that are in addition to their interests as First Charter shareholders.

Each of the above factors supports, directly or indirectly, the determination of the First Charter Board of Directors as to the fairness of the merger agreement and the related merger. This discussion of the information and factors considered by the First Charter Board of Directors in making its decision is not intended to be exhaustive, but does include all material factors considered by the First Charter Board of Directors. The First Charter Board of Directors did not quantify or attempt to assign relative weights to the specific factors considered in reaching its determination; however, the First Charter Board of Directors placed special emphasis on the consideration, including the form, fixed value and tax treatment of such consideration, payable in the proposed merger and the receipt of a favorable fairness opinion from its financial advisor. For additional information regarding the fairness opinion, see Opinion of First Charter s Financial Advisor.

The Board of Directors of First Charter recommends that the holders of First Charter common stock vote FOR approval of the amended and restated agreement and plan of merger and FOR the adjournment or postponement of the special meeting, if necessary or appropriate, to solicit additional proxies.

Fifth Third s Reasons for the Merger

Fifth Third s primary reason for entering into the merger is to further a long-range commitment of expanding its banking system to better meet and satisfy the needs of its customers by strengthening its presence in core markets while expanding into contiguous markets. Fifth Third s historic acquisition strategy has generally been to fill in its markets along the interstate highways in Ohio, Kentucky, Illinois, Indiana, Michigan, Tennessee, West Virginia, Pennsylvania, Missouri and Florida. These acquisitions were designed to strengthen Fifth Third s ability to compete in these markets by increasing its presence, consumer access and sales force. The First Charter acquisition would broaden Fifth Third s market presence into a geographic region that is contiguous to Fifth Third s traditional core market.

Opinion of First Charter s Financial Advisor

On June 29, 2007, First Charter executed an engagement agreement with Keefe, Bruyette & Woods, Inc., referred to as KBW. KBW s engagement encompassed assisting First Charter as its financial advisor in connection with a possible business combination with select other institutions. First Charter selected KBW because KBW is a nationally recognized investment-banking firm with substantial experience in transactions similar to the merger and is familiar with First Charter and its business. As part of its investment-banking business, KBW is continually engaged in the valuation of financial businesses and their securities in connection with mergers and acquisitions.

On August 15, 2007, the First Charter Board of Directors held a meeting to evaluate the proposed merger of First Charter with and into Fifth Third. At this meeting, KBW reviewed the financial aspects of the proposed merger. As of such date, KBW rendered a written opinion to First Charter shareholders as to the fairness, from a financial point of view, of the consideration to be paid in the merger. The First Charter Board of Directors approved the merger agreement at this meeting.

The full text of KBW s written opinion is attached as Annex B to this document and is incorporated herein by reference. First Charter s shareholders are urged to read the opinion in its entirety for a description of the procedures followed, assumptions made, matters considered and qualifications and limitations on the review undertaken by KBW. The description of the opinion set forth herein is qualified in its entirety by reference to the

full text of such opinion.

KBW s opinion speaks only as of the date of the opinion. The opinion is directed to the First Charter Board of Directors and addresses only the fairness, from a financial point of view, of the consideration offered to the First Charter shareholders. It does not address the underlying business decision to proceed

with the merger and does not constitute a recommendation to any First Charter shareholder as to how the shareholder should vote at the First Charter special meeting on the merger or any related matter.

In rendering its opinion, KBW:

- reviewed, among other things,
  - the merger agreement,
  - Annual Reports to Shareholders and Annual Reports on Form 10-K of Fifth Third,
  - Quarterly Reports on Form 10-Q of Fifth Third,
  - Annual Reports to Shareholders and Annual Reports on Form 10-K of First Charter, and
  - Quarterly Reports on Form 10-Q of First Charter;
- held discussions with members of senior management of First Charter and Fifth Third regarding,
  - past and current business operations,
  - financial condition, and
  - future prospects of the respective companies;
- reviewed the market prices, valuation multiples, publicly reported financial condition and results of operations for First Charter and Fifth Third and compared them with those of certain publicly traded companies that KBW deemed to be relevant;
- compared the proposed financial terms of the merger with the financial terms of certain other transactions that KBW deemed to be relevant;
- evaluated the potential pro forma impact of the merger on Fifth Third, including cost savings that could result from a combination of the businesses of First Charter and Fifth Third; and
- performed other studies and analyses that it considered appropriate.

In conducting its review and arriving at its opinion, KBW relied upon and assumed the accuracy and completeness of all of the financial and other information provided to or otherwise made available to KBW or that was discussed with, or reviewed by KBW, or that was publicly available. KBW did not attempt, or assume any responsibility, to verify such information independently. KBW relied upon the management of First Charter as to the reasonableness and achievability of the financial and operating forecasts and projections (and assumptions and bases therefor) provided to KBW. KBW assumed, without independent verification, that the aggregate allowances for loan and lease losses for First Charter and Fifth Third are adequate to cover those losses. KBW did not make or obtain any evaluations or appraisals of any assets or liabilities of First Charter or Fifth Third, nor did they examine or review any individual credit files.

The projections and pro forma information furnished to KBW and used by it in certain of its analyses were prepared by First Charter s senior management team. First Charter does not publicly disclose internal management projections

of the type provided to KBW in connection with its review of the merger. As a result, such projections were not prepared with a view towards public disclosure. The projections were based on numerous variables and assumptions, which are inherently uncertain, including factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in the projections. In its analysis, KBW used certain publicly available financial information and earnings estimates on Fifth Third and made no attempt to independently verify their accuracy.

For purposes of rendering its opinion, KBW assumed that, in all respects material to its analyses:

- the merger will be completed substantially in accordance with the terms set forth in the merger agreement;
- the representations and warranties of each party in the merger agreement and in all related documents and instruments referred to in the merger agreement are true and correct;

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each party to the merger agreement and all related documents will perform all of the covenants and agreements required to be performed by such party under such documents;

all conditions to the completion of the merger will be satisfied without any waivers; and

in the course of obtaining the necessary regulatory, contractual or other consents or approvals for the merger, no restrictions, including any divestiture requirements, termination or other payments or amendments or modifications, that may be imposed will have a material adverse effect on the future results of operations or financial condition of the combined entity or the contemplated benefits of the merger, including the cost savings, revenue enhancements and related expenses expected to result from the merger.

KBW further assumed that the merger will be accounted for as a purchase transaction under generally accepted accounting principles, and that the merger will qualify as a tax-free reorganization for United States federal income tax purposes. KBW s opinion is not an expression of an opinion as to the prices at which shares of First Charter common stock or Fifth Third common stock will trade after the announcement of the proposed merger or the actual value of the Fifth Third common shares when issued pursuant to the merger, or the prices at which the Fifth Third common shares will trade following the completion of the merger.

In performing its analyses, KBW made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, which are beyond the control of KBW, First Charter and Fifth Third. Any estimates contained in the analyses performed by KBW are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty. In addition, the KBW opinion was among several factors taken into consideration by the First Charter Board of Directors in making its determination to approve the merger agreement and the merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the First Charter Board of Directors with respect to the fairness of the consideration to be paid in the merger.

Summary of Analysis by KBW

The following is a summary of the material analyses presented by KBW to the First Charter Board of Directors in connection with its written fairness opinion. The summary is not a complete description of the analyses underlying the KBW opinion or the presentation made by KBW to the First Charter Board of Directors, but summarizes the material analyses performed and presented in connection with such opinion. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. In arriving at its opinion, KBW did not attribute any particular weight to any analysis or factor that it considered, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. The financial analyses summarized below include information presented in tabular format. Accordingly, KBW believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion. The tables alone do not constitute a complete description of the financial analyses.

Summary of Proposal. The terms of the merger agreement call for each outstanding share of First Charter common stock to be converted into the right to receive a fixed value of $31.00 in cash or stock based upon a number of shares of Fifth Third common stock determined by the average market price of Fifth Third common stock over a five-trading-day period ending on the last trading day immediately before the closing date of the merger. First Charter shareholders will have the right to elect to receive either stock or cash with

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the constraint that the overall transaction must be consummated with 70% of the First Charter shares being exchanged for Fifth Third common stock and 30% being exchanged for cash.

Selected Peer Group Analysis. Using publicly available information, KBW compared the financial performance, financial condition and market performance of First Charter and Fifth Third to the following depository institutions that KBW considered comparable to First Charter and Fifth Third.

Companies included in First Charter s peer group were:

South Financial Group, Inc.	Green Bankshares, Inc.
BancorpSouth, Inc.	Security Bank Corporation
Trustmark Corporation	Pinnacle Financial Partners, Inc.
United Community Banks, Inc.	SCBT Financial Corporation
Alabama National BanCorporation	First Bancorp
Provident Bankshares	First Community Bancshares, Inc.
Hancock Holding Company	Union Bankshares Corporation
Renasant Corporation	Virginia Commerce Bancorp, Inc.
Sandy Spring Bancorp, Inc.	Ameris Bancorp

Companies included in Fifth Third s peer group were:

Wells Fargo & Company	BB&T Corporation
U.S. Bancorp	KeyCorp
SunTrust Banks, Inc.	M&T Bank Corporation
National City Corporation	Comerica Incorporated
Regions Financial Corporation	Marshall & Ilsley Corporation
PNC Financial Services Group, Inc.	UnionBanCal Corporation

To perform this analysis, KBW used financial information as of or for the three-month or twelve-month period ended June 30, 2007. Market price information was as of August 14, 2007. Earnings estimates for 2007 and 2008 were taken from First Call, a nationally recognized earnings estimate consolidator. Certain financial data prepared by KBW, and as referenced in the tables presented below, may not correspond to the data presented in First Charter s and Fifth Third s historical financial statements, as a result of the different periods, assumptions and methods used by KBW to compute the financial data presented.

KBW s analysis showed the following concerning First Charter s and Fifth Third s financial performance:

	Fifth Third	**Fifth Third Peer Group Median**	**First Charter**	**First Charter Peer Group Median**
Financial Performance Measures:				
Latest Twelve Months	14.2%	13.9%	11.4%	11.6%

Core Return on Average Equity(1)				
Latest Twelve Months	1.37%	1.37%	1.01%	1.10%
Core Return on Average Assets(1)				
Net Interest Margin	3.37%	3.56%	3.42%	3.92%
Latest Twelve Months				
Efficiency Ratio	56%	59%	60%	59%

(1) Core income is defined as net income before extraordinary items, less the after-tax portion of investment securities gains or losses and nonrecurring items.

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KBW s analysis showed the following concerning First Charter s and Fifth Third s financial condition:

	Fifth Third	Fifth Third Peer Group Median	First Charter	First Charter Peer Group Median
Financial Condition Measures:				
Tangible Equity/Tangible Assets	6.53%	5.55%	7.48%	6.66%
Loans/Deposits	112%	117%	110%	95%
Latest Twelve Months Net Charge-offs/Average Loans	0.46%	0.25%	0.07%	0.14%
Loan Loss Reserves/Loans	1.02%	1.08%	1.26%	1.16%
Nonperforming Assets/Assets	0.55%	0.42%	0.41%	0.35%

KBW s analysis showed the following concerning First Charter s and Fifth Third s market performance:

	Fifth Third	Fifth Third Peer Group Median	First Charter	First Charter Peer Group Median
Market Performance Measures:				
Price to Earnings Multiple, based on 2007 GAAP estimated earnings	13.7x	11.9x	13.9x	13.1x
Price to Earnings Multiple, based on 2008 GAAP estimated earnings	12.7x	10.8x	11.6x	11.8x
Price to Last Twelve Months earnings	17.5x	11.3x	14.4x	13.6x
Price to Book Multiple Value	218%	162%	154%	148%
Price to Tangible Book Multiple Value	300%	293%	190%	224%

Comparable Transaction Analysis. KBW reviewed publicly available information related to selected comparably sized acquisitions of bank holding companies nationwide announced after January 1, 2004 with aggregate transaction values between $500 million and $1.5 billion. The transactions included in the group were:

Acquirer	Acquiree
KeyCorp	U.S.B. Holding Co., Inc.
Marshall & Ilsley Corporation	First Indiana Corporation
Wells Fargo & Company	Greater Bay Bancorp
Susquehanna Bancshares, Inc.	Community Banks, Inc.
Wells Fargo & Company	Placer Sierra Bancshares

Rabobank Nederland	Mid-State Bancshares
Citizens Banking Corporation	Republic Bancorp Inc.
BB&T Corporation	Main Street Banks, Inc.
Marshall & Ilsley Corporation	Gold Banc Corporation, Inc.
Banco Bilbao Vizcaya Argentaria, S.A.	Laredo National Bancshares, Inc.
BNP Paribas Group	Community First Bankshares, Inc.
Huntington Bancshares Incorporated	Unizan Financial Corporation

Transaction multiples for the merger were derived from an offer price of $31.00 per share for First Charter. For each precedent transaction, KBW derived and compared, among other things, the implied ratio of price per common share paid for the acquired company to:

book value per share of the acquired company based on the latest publicly available financial statements of the company available prior to the announcement of the acquisition.

tangible book value per share of the acquired company based on the latest publicly available financial statements of the company available prior to the announcement of the acquisition.

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the earnings per share of the acquired company for the latest 12 months of results publicly available prior to the time the transaction was announced.

the projected forward earnings per share of the acquired company publicly available prior to the time the transaction was announced.

tangible equity premium to core deposits based on the latest publicly available financial statements of the company available prior to the announcement of the acquisition.

market premium based on the latest closing price one-day prior to the announcement of the acquisition.

The results of the analysis are set forth in the following table:

Transaction Price to:	Fifth Third/ First Charter Merger	Comparable Transactions Median	Comparable Transactions Maximum	Comparable Transactions Minimum
Book Value	241%	248%	333%	158%
Tangible Book Value	297%	327%	450%	247%
Last Twelve Months Earnings per Share	22.6x	20.0x	25.1x	15.0x
Projected Earnings per Share	21.8x	19.9x	23.7x	15.2x
Core Deposit Premium	32.4%	25.4%	37.6%	18.8%
Market Premium(1)	56.6%	23.4%	53.2%	(3.5)%

(1) Based on First Charter s closing price of $19.79 on August 14, 2007

No company or transaction used as a comparison in the above analysis is identical to First Charter, Fifth Third or the proposed merger. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies.

Discounted Cash Flow Analysis. KBW performed a discounted cash flow analysis to estimate a range for the implied equity value per share of First Charter common stock based on a continued independence scenario. In this analysis, KBW assumed discount rates ranging from 10.0% to 14.0% to derive (i) the present value of the estimated free cash flows that First Charter could generate over a five-year period and (ii) the present value of First Chater s terminal value at the end of year five. Terminal values for First Charter were calculated based on a range of 10.0x to 14.0x estimated year six earnings per share. In performing this analysis, KBW used First Charter management s earnings estimates for the first three years. Based on management s estimates, KBW assumed 8.0% earnings per share growth thereafter. KBW also applied a range of long-term earnings per share growth rates between 6.0% and 10.0%. In determining cash flows available to shareholders, KBW used forecasted dividend payout ratios (percentages of earnings per share payable to shareholders) of 50.0%.

Based on these assumptions, KBW derived an implied equity value per share of First Charter common stock ranging from $15.89 to $23.09.

The discounted cash flow analysis is a widely used valuation methodology, but the results of such methodology are highly dependent on the assumptions that must be made, including asset and earnings growth rates, terminal values, dividend payout rates and discount rates. The analysis did not purport to be indicative of the actual values or expected values of First Charter common stock.

Forecasted Pro Forma Financial Analysis. KBW analyzed the estimated financial impact of the merger on publicly available consensus estimates of Fifth Third s 2008 earnings per share and 2008 cash earnings per share. Cash earnings per share is determined by adding per share amortization of intangible assets to earnings per share. For both First Charter and Fifth Third, KBW used the First Call consensus estimates of earnings per share for 2008. In addition, KBW assumed that the merger will result in cost savings to Fifth Third based on cost savings estimates provided by Fifth Third s management. Based on its own analysis, KBW determined

that the merger would be slightly dilutive to Fifth Third s estimated GAAP earnings per share in 2008 and breakeven to Fifth Third s cash earnings per share in 2008.

Furthermore, KBW s analysis indicated that Fifth Third s Leverage Ratio, Tier 1 Risk-Based Capital Ratio and Total Risk Based Capital Ratio would all remain well capitalized by regulatory standards. For all of the above analysis, the actual results achieved by Fifth Third following the merger may vary from the projected results, and the variations may be material.

Other Analyses. KBW reviewed the relative financial and market performance of First Charter and Fifth Third to a variety of relevant industry peer groups and indices. KBW also reviewed publicly available earnings estimates, balance sheet composition, historical stock performance and other financial data for Fifth Third.

The First Charter Board of Directors retained KBW as an independent contractor to act as financial advisor to First Charter regarding the merger. As part of its investment banking business, KBW is continually engaged in the valuation of banking businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes. As specialists in the securities of banking companies, KBW has experience in, and knowledge of, the valuation of banking enterprises. In the ordinary course of its business as a broker-dealer, KBW may, from time to time, purchase securities from, and sell securities to, First Charter and Fifth Third. As a market maker in securities KBW may from time to time have a long or short position in, and buy or sell, debt or equity securities of First Charter and Fifth Third for KBW s own account and for the accounts of its customers.

First Charter and KBW have entered into an agreement relating to the services to be provided by KBW in connection with the merger. First Charter has agreed to pay KBW, at the time of closing, a cash fee equal to 0.80% of the market value of the aggregate consideration offered in exchange for the outstanding shares of common stock and options of First Charter. The estimated fee to be paid to KBW is approximately $8.9 million. Pursuant to the KBW engagement agreement, First Charter also agreed to reimburse KBW for reasonable out-of-pocket expenses and disbursements incurred in connection with its retention and to indemnify against certain liabilities, including liabilities under the federal securities laws.

Material Federal Income Tax Consequences

The following is a summary of the material anticipated federal income tax consequences of the merger to First Charter shareholders who hold their stock as a capital asset. The summary is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, and published administrative rulings and court decisions in effect as of the date of this registration statement, all of which are subject to change at any time, possibly with retroactive effect.

This summary is not a complete description of all of the consequences of the merger and, in particular, may not address federal income tax considerations applicable to shareholders subject to special treatment under federal income tax law. For example, it may not apply to persons who are not U.S. persons for federal income tax purposes, financial institutions, dealers in securities, shareholders who receive their stock in consequence of the exercise of an employee stock option or right or other compensation, and persons who hold First Charter common stock as part of a hedge, straddle or conversion transaction. In addition, no information is provided herein with respect to the tax consequences of the merger under applicable state, local or foreign laws.

You are urged to consult with your tax advisors regarding the tax consequences of the merger in your particular circumstances, as well as any tax consequences that may arise under the laws of any state, local or foreign taxing jurisdiction.

As a condition to the merger, Fifth Third will receive an opinion of Alston & Bird LLP, tax counsel to Fifth Third, and First Charter will receive an opinion of Helms Mulliss & Wicker, PLLC, tax counsel to First Charter, addressing the federal income tax consequences of the merger. The opinions will be based on factors, assumptions and representations set forth in the opinions, including representations contained in letters and certificates from Fifth Third and First Charter to be delivered for purposes of the opinions. An opinion of

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counsel represents only counsel s best legal judgment on the matters addressed in the opinion, and has no binding effect or official status of any kind, and no assurance can be given that contrary positions may not be taken by the Internal Revenue Service or a court considering the issues. Neither Fifth Third nor First Charter has requested or will request a ruling from the Internal Revenue Service with regard to any of the federal income tax consequences of the merger. Accordingly, there can be no assurance that the Internal Revenue Service will not challenge the conclusions reflected in such opinions or that a court will not sustain such challenge.

In the event that either First Charter or Fifth Third fails to receive such an opinion because the material federal income tax consequences to First Charter shareholders are different from those described above, but First Charter or Fifth Third determines to waive their respective requirements for the receipt of the tax opinion, First Charter will resolicit the vote of the First Charter shareholders prior to proceeding with consummation of the merger.

Provided that the merger constitutes a reorganization within the meaning of Section 368(a) of the Internal Revenue Code, for federal income tax purposes:

First Charter and Fifth Third will be parties to a reorganization within the meaning of Section 368(b) of the Internal Revenue Code,

No gain or loss will be recognized by holders of First Charter common stock who elect to exchange their First Charter common stock for Fifth Third common stock pursuant to the merger (except with respect to any cash received in lieu of a fractional share interest in Fifth Third common stock),

The tax basis of the Fifth Third common stock received (including fractional shares deemed received and redeemed) by holders of First Charter common stock who exchange their First Charter common stock for Fifth Third common stock in the merger will be the same as the tax basis of the First Charter common stock surrendered in exchange for the Fifth Third common stock (reduced by an amount allocable to a fractional share interest in Fifth Third common stock deemed received and redeemed), and

The holding period of the Fifth Third common stock received (including fractional shares deemed received and redeemed) by holders who exchange their First Charter common stock for Fifth Third common stock in the merger will be the same as the holding period of the First Charter common stock surrendered in exchange therefor, provided that such First Charter common stock is held as a capital asset at the effective time.

Based upon the current ruling position of the Internal Revenue Service, cash you receive in lieu of a fractional share interest in Fifth Third common stock will be treated as received in redemption of such fractional share interest, and you should generally recognize capital gain or loss for federal income tax purposes measured by the difference between the amount of cash received and the portion of the tax basis of the Fifth Third common stock allocable to such fractional share interest. Such gain or loss should be a long-term capital gain or loss if the holding period for such share of First Charter common stock is greater than one year at the effective time. In the case of individual First Charter shareholders, such capital gain will be taxed for federal income tax purposes at a maximum rate of 15% if your holding period is more than one year.

If you elect to receive solely cash for First Charter common stock in the merger, such cash will be treated as a redemption of First Charter common stock and you should generally recognize capital gain or loss equal to the difference between your tax basis in First Charter common stock and such cash. You should be aware, however, that such gain may be subject to the provisions and limitations of Section 302 of the Internal Revenue Code.

If you exchange First Charter common stock for a combination of Fifth Third common stock and cash, you will recognize gain (but not loss). Your gain will be equal to the lesser of (i) the cash (excluding any cash received in lieu

of a fractional share of Fifth Third common stock) and the fair market value of the Fifth Third common stock received (including the fair market value of any fractional share of Fifth Third common stock which is deemed to be distributed in the merger and then redeemed by Fifth Third), less your tax basis in First Charter common stock, or (ii) the amount of cash received.

Payments in respect of First Charter common stock may be subject to information reporting to the Internal Revenue Service and to a 28% backup withholding tax. Backup withholding will not apply, however, to a payment to a holder of First Charter common stock or other payee if such shareholder or payee completes and signs the substitute Form W-9 that will be included as part of the transmittal letter, or otherwise proves to the combined company and the exchange agent that such shareholder or payee is exempt from backup withholding.

Accounting Treatment

Fifth Third will account for the merger as a purchase under United States generally accepted accounting principles. Under the purchase method of accounting, all the assets acquired and liabilities assumed of the acquired company are recorded at their respective fair values, as of the effective date of the transaction. The amount, if any, by which the purchase price paid by Fifth Third exceeds the fair value of the net tangible and identifiable intangible assets acquired by Fifth Third in the transaction is recorded as goodwill. After the merger, First Charter s assets and liabilities and results of operations will be consolidated with Fifth Third s assets and liabilities and results of operations.

Resale of Fifth Third Common Stock by Affiliates

The shares of Fifth Third common stock to be issued to shareholders of First Charter in connection with the merger have been registered under the Securities Act of 1933 and will be freely transferable under the Securities Act, except for shares issued to any shareholder who may be deemed to be an affiliate of First Charter or Fifth Third at the time of the special meeting. Generally, an affiliate includes a director, an executive officer or a 10% or more shareholder of First Charter or Fifth Third at the time of the special meeting.

Rule 145 under the Securities Act currently restricts the public sale of Fifth Third common stock received in the merger by affiliates, although the SEC recently adopted changes to Rule 145 that may eliminate such restrictions as discussed below. The following discussion of Rule 145 describes Rule 145 as in effect as of the date of this Proxy Statement/Prospectus. During the first year following the effective time of the merger, affiliates of First Charter who do not become affiliates of Fifth Third may publicly resell the Fifth Third common stock received by them in connection with the merger upon compliance with the following conditions of Rule 144:

- Fifth Third must have satisfied its reporting requirements under the Securities Exchange Act of 1934, as amended for the 12 months preceding the proposed sale;
- the number of shares sold in any three-month period is limited to the greater of (1) one percent of Fifth Third s shares outstanding or (2) the average weekly trading volume during the four calendar weeks preceding the first sale; and
- the shares must be sold by a broker in a routine open market transaction that does not involve the solicitation of orders for purchase.

Shares of Fifth Third common stock sold by: (1) an affiliate s spouse or relative living in the affiliate s household, (2) any trust or estate in which the affiliate or person listed in clause (1) collectively owns 10% or more of the beneficial interest or of which any of these persons serves as trustee or executor, (3) any corporation in which the affiliate or any person specified in clause (1) beneficially owns at least 10% of an equity interest, (4) any person to whom the affiliate donated shares or (5) any person who acquired the shares from the affiliate as a result of the affiliate defaulting on an obligation secured by a pledge of the shares, will be aggregated with the number of shares sold by the affiliate for purposes of determining whether the volume limitations of Rule 144 are exceeded.

After the first year following the completion of the merger, affiliates of First Charter who are not affiliates of Fifth Third may resell their shares publicly without regard to the volume limitation or manner of sale requirement so long as Fifth Third has satisfied its reporting requirements under the Securities Exchange Act of 1934, as amended during the prior 12-month period. If Fifth Third has not satisfied its reporting requirements, affiliates may not publicly resell their shares of Fifth Third common stock received in the

merger until two years have elapsed since completion of the merger. At that time, the shares may be sold without any restriction.

Even if the shares are sold, pledged or donated in compliance with Rule 145, the shares will remain subject to Rule 145 in the hands of the recipient until the restrictive period applicable to the affiliate transferor has expired.

The merger agreement provides that First Charter will use its best efforts to cause each person who is deemed by First Charter to be an affiliate (for purposes of Rule 145) of First Charter to execute and deliver to Fifth Third a written agreement intended to ensure compliance with the Securities Act.

Sales and other dispositions of Fifth Third common stock by any affiliate of First Charter who becomes an affiliate of Fifth Third in connection with the merger must be made in compliance with the requirements of Rule 144 set forth above until such person has not been an affiliate of Fifth Third for at least three months and a period of at least two years has elapsed since the date the shares were acquired in connection with the merger.

Notwithstanding the discussion of Rule 145 above, on November 15, 2007, the SEC voted to amend Rule 145 to eliminate the presumptive underwriter provision except with respect to transactions involving blank check or shell companies, and to revise the resale provisions of Rule 145(d). These amendments are scheduled to become effective 60 days after publication in the Federal Register, however, the effective date and the final adopted rules are not available as of the date of this proxy statement/prospectus. This summary of the revised rules is based solely on the text of the SEC s press release announcing changes to these rules.

No Dissenters or Appraisal Rights

Shareholders of a corporation that is proposing to merge or consolidate with another entity are sometimes entitled under relevant state laws to appraisal or dissenters rights in connection with the proposed transaction depending on the circumstances. These rights generally confer on shareholders who oppose a merger or the consideration to be received in a merger the right to receive, in lieu of the consideration being offered in the merger, the fair value for their shares as determined in a judicial appraisal proceeding.

You are not entitled to appraisal or dissenters rights under North Carolina law in connection with the merger because the First Charter common stock was listed on the NASDAQ Global Select Market System on the record date for its special meeting of shareholders and the merger consideration consists solely of cash and stock.

PROPOSAL ADJOURNMENT OR POSTPONEMENT OF THE SPECIAL MEETING

We are asking First Charter shareholders to vote on a proposal to adjourn or postpone the special meeting, if necessary or appropriate, in order to allow for the solicitation of additional proxies if there are insufficient votes at the time of the special meeting to approve the merger agreement.

The Board of Directors of First Charter recommends that the holders of First Charter common stock vote FOR the approval of any proposal to adjourn or postpone the special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes in favor of approval of the merger agreement at the time of the special meeting.

TERMS OF THE AGREEMENT

Representations and Warranties

The merger agreement, attached hereto as Annex A, contains representations and warranties that Fifth Third and First Charter made to each other relating to, among other things, the following:

- their incorporation, good standing, corporate power and similar corporate matters;

- their capitalization;

their authorization, execution, delivery and performance and the enforceability of the merger agreement and the absence of violations;

governmental and third-party consents necessary to complete the merger;

their financial statements;

the absence of a broker s or finder s fee in connection with the merger;

the absence of material changes since December 31, 2006;

legal proceedings;

tax matters;

their SEC and other regulatory filings;

compliance with laws and regulations;

tax treatment of the merger; and

information in this document.

Fifth Third has made representations and warranties to First Charter with respect to the availability of sufficient funds to deliver the aggregate cash consideration in connection with the merger. First Charter also has made representations and warranties to Fifth Third with respect to employee benefits matters, material contracts, its loan portfolio, owned and leased real estate, environmental matters, derivative transactions, investment securities and commodities, securitizations, intellectual property and the inapplicability of state antitakeover laws.

These representations and warranties were made as of specific dates, may be subject to important qualifications and limitations agreed to by Fifth Third and First Charter in connection with negotiating the terms of the merger agreement, and may have been included in the merger agreement for the purpose of allocating risk between Fifth Third and First Charter rather than establishing matters as fact. The merger agreement is included with this filing only to provide investors with information regarding the terms of the merger agreement, and not to provide investors with any other factual information regarding the parties or their respective businesses. The assertions embodied in the representations and warranties are qualified by information in a confidential disclosure schedule that First Charter provided to Fifth Third in connection with the signing of the merger agreement. While Fifth Third does not believe that the confidential disclosure schedule contains information that securities laws require it to publicly disclose, other than information that has already been so disclosed, the disclosure schedule does contain information that modifies, qualifies and creates exceptions to the representations and warranties set forth in the attached merger agreement. Accordingly, you should keep in mind that the representations and warranties are modified in important part by the underlying disclosure schedule. The merger agreement should not be read alone, but should instead be read in conjunction with the other information regarding the companies and the merger that will be contained in, or incorporated by reference into, this proxy statement/prospectus, as well as in Forms 10-K, Forms 10-Q, Forms 8-K and other filings that Fifth Third makes with the Securities and Exchange Commission, as such filings may be amended from time to time.

Most of the representations and warranties of the parties will be deemed to be true and correct unless the facts, circumstances or events, individually or when taken together with all other facts, circumstances or events inconsistent with the representations or warranties has had or would reasonably likely to have a material adverse effect on the business, results of operations or financial condition of the party making the representations and warranties or on the ability of the party to complete the transactions contemplated by the merger agreement. In determining whether a material adverse effect has occurred or is reasonably likely, the parties will disregard any effects resulting from (A) changes in generally accepted accounting principles or regulatory accounting requirements applicable to banks or savings associations and their holding companies generally, (B) changes in laws, rules or regulations of general applicability or interpretations thereof by any governmental entity, (C) changes in global or national political conditions (including any outbreak of war or acts of

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terrorism) or in general economic conditions affecting banks, savings associations or their holding companies generally, (D) consummation or public disclosure of the merger agreement or the transactions contemplated thereby or (E) actions or omissions of Fifth Third or First Charter taken with the prior written consent of the other in contemplation of the transactions contemplated by the merger agreement.

Conduct Pending Merger

First Charter has agreed that, prior to the effective time of the merger, and except with the prior written consent of Fifth Third, First Charter and its subsidiaries will be operated in the ordinary course of business in all material respects and First Charter will use reasonable best efforts to maintain and preserve intact its business organization and advantageous business relationships and retain the services of its key officers and key employees. First Charter has also agreed to, prior to the effective time of the merger, and except with the prior written consent of Fifth Third, take no action that is intended to or would be reasonably expected to adversely affect or materially delay the ability of the parties to obtain any necessary approvals of any regulatory agency or governmental entity required for the transactions contemplated by the merger agreement.

In addition, without Fifth Third s prior written consent, neither First Charter nor its subsidiaries will, among other things:

other than in the ordinary course of business consistent with past practice: (1) incur any indebtedness for borrowed money, (2) become responsible for the obligations of any other individual, corporation or other entity or (3) make any loan, advance, capital contributions to or investment in, any person;

adjust, split, combine or reclassify any of its capital stock;

make, declare or pay any dividend, or make any other distribution on, or directly or indirectly redeem, purchase or otherwise acquire, any shares of its capital stock or any securities or obligations convertible into or exchangeable for any shares of its capital stock, except

for regular quarterly cash dividends per share of First Charter common stock consistent with past practice, subject to coordination with Fifth Third relating to the declaration of First Charter common stock dividends,

dividends paid by any of the subsidiaries of First Charter to First Charter or to any of its wholly owned subsidiaries,

the acceptance of shares of First Charter common stock in payment of the exercise price or withholding taxes incurred by any employee or director in connection with the exercise of stock options or the vesting of restricted shares of (or settlement of other equity-based awards in respect of First Charter common stock granted under a First Charter stock plan, in each case in accordance with past practice and the terms of the applicable First Charter stock plan and the related award agreements), and

open-market purchases pursuant to the First Charter Retirement Savings Plan, First Charter s Amended and Restated Deferred Compensation Plan for Non-Employee Directors or First Charter s 2007 Dividend Reinvestment and Stock Purchase Plan;

grant any First Charter stock options, restricted shares or other equity-based award with respect to shares of First Charter common stock under any of the First Charter stock plans, or otherwise grant any individual, corporation or other entity any right to acquire any shares of its capital stock;

issue any additional shares of capital stock or other securities except pursuant to the exercise of stock options or the settlement of other equity-based awards granted under a First Charter stock plan that are outstanding as of the date of the merger agreement;

except as required by the terms of any First Charter benefit plan and, solely with respect to employees that are not executive officers or directors of First Charter, except for normal increases made in the ordinary course of business consistent with past practice, or as required by applicable law or an existing agreement:

increase the wages, salaries, incentive compensation or incentive compensation opportunities of any employee of First Charter or any of its subsidiaries, or, except for payments in the ordinary course of business consistent with past practice, pay or provide, or increase or accelerate the accrual rate, vesting or timing of payment or funding of, any compensation, benefits or other rights of any employee of First Charter or any of its subsidiaries; or

establish, adopt or become a party to any new employee benefit or compensation plan, program, commitment or agreement or amend any First Charter benefit plan (provided, however that First Charter may enter into retention agreements with a limited number of key employees whose retention is deemed reasonably necessary by First Charter to facilitate the consummation of the transactions contemplated by the merger agreement);

except for sales of those properties set forth in the First Charter disclosure schedules at market prices in arm s-length transactions with unrelated parties, sell, transfer, mortgage, encumber or otherwise dispose of any material amount of its properties or assets to any person or other entity other than a First Charter subsidiary, or cancel, release or assign any material indebtedness other than in the ordinary course of business consistent with past practice or pursuant to contracts in force as of the date of the merger agreement;

enter into any new line of business or make any material change in its lending, investment, underwriting, risk and asset liability management or other banking, operating and servicing policies, except as required by applicable law, regulation or policies imposed by any governmental entity;

make any material investment either by purchase of stock or securities, contributions to capital, property transfers or purchase of any property or assets of any other person;

take any action, or knowingly fail to take any action, which action or failure to act is reasonably likely to prevent the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code;

amend its articles of incorporation or bylaws, or otherwise take any action to exempt any person or entity (other than Fifth Third or its subsidiaries) or any action taken by any person from any takeover statute or similarly restrictive provisions of its organizational documents or terminate, amend or waive any provisions of any confidentiality or standstill agreements in place with any third parties;

other than in prior consultation with Fifth Third, restructure or materially change its investment securities portfolio or its gap position, through purchases, sales or otherwise, or the manner in which the portfolio is classified or reported;

commence or settle any claim, action or proceeding where the amount in dispute is in excess of $250,000 or subjecting First Charter or any of its subsidiaries to any material restrictions on its current or future business or operations (including the future business and operations of the surviving corporation);

take any action or fail to take any action that is intended or may reasonably be expected to result in any of the closing conditions to the merger not being satisfied;

implement or adopt any material change in its tax accounting or financial accounting principles, practices or methods, other than as may be required by applicable, GAAP or regulatory guidelines;

file or amend any tax return other than in the ordinary course of business, make any significant change in any method of tax or accounting (other than as may be required by applicable law, GAAP or regulatory guidelines), make or change any tax election or settle or compromise any tax liability in excess of $250,000;

- except for transactions in the ordinary course of business consistent with past practice, terminate or waive any material provision of any First Charter contract or make any change in any instrument or agreement governing the terms of any of its securities, or any material lease or contract, other than normal renewals of contracts and leases without material adverse changes of terms;

- take any action that would materially impede or materially delay the ability of the parties to obtain any necessary approvals of any regulatory agency or governmental entity required for the transaction, contemplated by the merger agreement; or

- agree to take, make any commitment to take, or adopt any resolutions of its Board of Directors in support of, any of the actions prohibited by the preceding bullet points.

Fifth Third has agreed that, without the prior written consent of First Charter, neither Fifth Third nor its subsidiaries will, among other things:

- amend, repeal or otherwise modify any provision of the Fifth Third articles of incorporation, the code of regulations of Fifth Third, the Fifth Third Financial articles of incorporation or the code of regulations of Fifth Third Financial in a manner that would adversely affect you or the transactions contemplated by the merger agreement;

- take any action, or knowingly fail to take any action, which action or failure to act is reasonably likely to prevent the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code;

- take any action that would be reasonably expected to prevent, materially impede, materially impact or materially delay the ability of the parties to obtain any necessary approvals of any regulatory agency or governmental entity required to consummate the transactions contemplated by the merger agreement;

- take any action that is intended or may reasonably be expected to result in any of the closing conditions to the merger not being satisfied; or

- agree to take, make any commitment to take, or adopt any resolutions of its Board of Directors in support of, any of the actions prohibited by the preceding bullet points.

Consistent with GAAP and so long as and to the extent not inconsistent with applicable laws, First Charter has agreed that on or before the effective time of the merger based on a review of First Charter s loan losses, current classified assets and commercial, multi-family and residential mortgage loans and investment portfolio, First Charter will work with Fifth Third in good faith and with the goal of establishing collection procedures, internal valuation reviews, credit policies and practices and general valuation allowances which are consistent with the guidelines used within the Fifth Third system. Fifth Third shall provide such assistance and direction to First Charter as is necessary in conforming to such policies, practices, procedures and asset dispositions which are mutually agreeable between the date of the merger agreement and the effective time of the merger.

Upon the request and at the sole option of Fifth Third, and if it would not cause a breach of an existing contract of First Charter, First Charter shall execute and deliver to Fifth Third an agreement to convert all electronic funds transfer (FTPS) related services to Fifth Third, including conversion to the Jeanie® network or other network in which Fifth Third or its affiliates participate. The FTPS Agreement shall provide that Fifth Third will be the exclusive provider of such services to First Charter and its banking subsidiaries. The cost of the conversion to the Jeanie®

system will be paid by Fifth Third.

Acquisition Proposals by Third Parties

The merger agreement provides, subject to limited exceptions described below, that First Charter and its subsidiaries will not authorize its officers, directors, employees or any investment banker, financial advisor, attorney, accountant or other representative retained by it or any of its subsidiaries to directly or indirectly (i) solicit, initiate, encourage, facilitate (including by way of furnishing information) or take any other action designed to facilitate any inquiries or proposals regarding any alternative transaction (as described below) (any

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of the foregoing inquiries or proposals being referred to herein as an alternative proposal); (ii) participate in discussions or negotiations regarding any alternative transaction; (iii) enter into any agreement regarding any alternative transaction or (iv) render its rights agreement inapplicable to an alternative proposal or the transactions contemplated thereby.

For purposes of the merger agreement, the term alternative transaction means any transaction pursuant to which any person (or group of persons) (other than Fifth Third or its affiliates), directly or indirectly, acquires or would acquire more than 25% of the outstanding shares of First Charter common stock or outstanding voting power or of any new series or new class of preferred stock that would be entitled to a class or series vote with respect to the merger, whether from First Charter or pursuant to a tender offer or exchange offer or otherwise; a merger, share exchange, consolidation or other business combination involving First Charter (other than the merger); any transaction pursuant to which any person (or group of persons) (other than Fifth Third or its affiliates) acquires or would acquire control of assets (including for this purpose the outstanding equity securities of subsidiaries of First Charter and securities of the entity surviving any merger or business combination including any of First Charter s subsidiaries) of First Charter, or any of its subsidiaries representing more than 25% of the fair market value of all the assets, net revenues or net income of First Charter and its subsidiaries, taken as a whole, immediately before such transaction; or any other consolidation, business combination, recapitalization or similar transaction involving First Charter or any of its subsidiaries, other than the transactions contemplated by the merger agreement, as a result of which the holders of shares of First Charter immediately before such transactions do not, in the aggregate, own at least 75% of the outstanding shares of common stock and the outstanding voting power of the surviving or resulting entity in such transaction immediately after the consummation thereof in substantially the same proportion as such holders held the shares of First Charter common stock immediately before the consummation thereof.

The merger agreement permits First Charter to comply with Rule 14d-9(e) and Rule 14e-2(a) under the Securities Exchange Act of 1934 with regard to an acquisition proposal that First Charter may receive. In addition, if First Charter receives an unsolicited bona fide written acquisition proposal prior to the First Charter shareholders meeting, and subject to first entering into a confidentiality agreement with any person offering an alternative proposal, First Charter may furnish nonpublic information regarding First Charter and may consider and participate in discussions and negotiations with the person making that acquisition proposal only if the Board of Directors reasonably determines in good faith, after receipt of advice from outside legal counsel, that the failure to engage in discussions with the third party concerning such acquisition proposal would likely cause the Board of Directors to breach its fiduciary duties to First Charter and its shareholders.

First Charter, within 24 hours, must promptly notify Fifth Third after receipt of any alternative proposal, or any material modification of or material amendment to any alternative proposal, or any request for nonpublic information relating to First Charter or any of its subsidiaries or for access to the properties, books or records of First Charter or any subsidiary by any person that informs the First Charter Board of Directors or any subsidiary that it is considering making, or has made, an alternative proposal. Moreover, First Charter will promptly advise Fifth Third orally and in writing, and shall indicate the identity of the person making the alternative proposal or intending to make or considering making an alternative proposal or requesting nonpublic information or access to the books and records of First Charter or any subsidiary, and the material terms of any such alternative proposal or modification or amendment to an alternative proposal. First Charter shall keep Fifth Third fully informed, on a current basis, of any material changes in the status and any material changes or modifications in the terms of any such alternative proposal, indication or request.

First Charter and its subsidiaries shall immediately cease and cause to be terminated any existing discussions or negotiations with any persons (other than Fifth Third) conducted with respect to any alternative transaction, and shall use reasonable best efforts to cause all persons other than Fifth Third who have been furnished confidential information regarding First Charter in connection with the solicitation of or discussions regarding any alternative

proposal within the 12 months before August 15, 2007, promptly to return or destroy such information. First Charter agrees not to, and to cause its subsidiaries not to, release any third party from the confidentiality and standstill provisions of any agreement to which First Charter or its subsidiaries is or may become a party, and shall immediately take all steps necessary to terminate any approval that may have been given under any such provisions authorizing any person to make any alternative proposal.

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First Charter shall ensure that the officers, directors and all employees, agents and representatives (including any investment bankers, financial advisors, attorneys, accountants or other retained representatives) of First Charter or its subsidiaries are aware of the restrictions described under the above section as reasonably necessary to avoid violations thereof.

Conditions to Closing

The merger agreement must be approved by the affirmative vote of 75% of the aggregate voting power of the outstanding stock of First Charter entitled to vote. The merger also must be approved in writing by the Federal Reserve Board and the North Carolina Commissioner of Banks. Fifth Third and First Charter filed these applications for such approvals on September 18, 2007. No assurance can be given that the required governmental approvals will be forthcoming.

Fifth Third s and First Charter s obligations to complete the merger are subject to additional conditions set forth in the merger agreement. These include:

approval of the merger agreement by First Charter s shareholders;

approval by NASDAQ of the listing of the shares of Fifth Third common stock to be issued in the merger on the NASDAQ Global Select Market System, subject to official notice of issuance;

absence of any judgment, order, injunction or decree of a court or agency of competent jurisdiction that prohibits completion of the merger or the transactions contemplated by the merger agreement;

absence of any statute, rule, regulation, order, injunction or decree that prohibits or makes illegal completion of the merger; and

the receipt by each party of an opinion of its counsel, dated the closing date of the merger, substantially to the effect that the merger will be treated as a reorganization under Section 368(a) of the Internal Revenue Code (see Proposal Merger of First Charter into Fifth Third Financial Corporation Material Federal Income Tax Consequences).

Fifth Third s obligation to complete the merger is further subject to conditions set forth in the merger agreement, including:

accuracy of First Charter s representations and warranties contained in the merger agreement, except, in the case of most representations and warranties, as to which the failure to be accurate would not be reasonably likely to have a material adverse effect on the party making the representations and warranties (See Terms of the Agreement Representations and Warranties), and the performance by First Charter of its obligations contained in the merger agreement in all material respects; and

receipt of all required regulatory approvals and expiration of all related statutory waiting periods.

First Charter s obligation to complete the merger is further subject to conditions set forth in the merger agreement, including:

accuracy of Fifth Third s representations and warranties contained in the merger agreement, except, in the case of most representations and warranties, in which the failure to be accurate would not be reasonably likely to have a material adverse effect on the party making the representations and warranties (See Terms of the

Agreement Representations and Warranties), and the performance by Fifth Third of its obligations contained in the merger agreement in all material respects; and

receipt of all required regulatory approvals that shall not have resulted in the imposition of any materially burdensome regulatory condition under banking laws and the expiration of all related statutory waiting periods.

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Termination

The merger agreement may be terminated and the merger abandoned at any time prior to the effective time of the merger by written notice delivered by Fifth Third to First Charter or by First Charter to Fifth Third in the following instances:

- by mutual consent of Fifth Third, First Charter and Fifth Third Financial;
- by either Fifth Third or First Charter, if any governmental entity that must grant a Fifth Third requisite regulatory approval or a First Charter regulatory approval has denied approval of the merger and such denial has become final and nonappealable or if any governmental entity of competent jurisdiction shall have issued a final and nonappealable order permanently enjoining or otherwise prohibiting the consummation of the transactions contemplated by the merger agreement;
- by either Fifth Third or First Charter, if the merger shall not have been consummated on or before August 15, 2008; provided, however, that no party may so terminate the merger agreement if the failure of such party to comply with any provision of the merger agreement has caused the merger not to be completed;
- by either Fifth Third or First Charter (so long as that the terminating party is not then in material breach of any representation, warranty, covenant or other agreement contained in the merger agreement), if there shall have been a breach of any of the covenants, agreements, representations or warranties set forth in the merger agreement on the part of First Charter, in the case of a termination by Fifth Third, or Fifth Third, in the case of a termination by First Charter, which breach, either individually or in the aggregate, would result in, if occurring or continuing on the closing date, the failure of the closing conditions of either party, as the case may be, and which breach is not cured within 45 days following written notice to the party committing the breach, or which breach, by its nature, cannot be cured within such time period; and
- by Fifth Third, if the Board of Directors of First Charter shall have failed to recommend in the proxy statement the approval and adoption of the merger agreement; or in a manner adverse to Fifth Third, (A) withdrawn, modified or qualified, or proposed to withdraw, modify or qualify, the recommendation by the First Charter Board of Directors of the merger agreement and/or the merger to First Charter s shareholders, (B) taken any public action or made any public statement in connection with the meeting of First Charter shareholders inconsistent with such recommendation or (C) recommended any alternative proposal, whether or not permitted by the merger agreement.

Amendment

The merger agreement may, to the extent legally allowed, be amended by the written agreement of each of the parties, by action taken or authorized by each company s respective Board of Directors at any time before or after approval of the matters presented in connection with the merger by First Charter s shareholders. Approval of any amendment by First Charter s shareholders is not required unless this action would adversely change the amount or form of consideration to be provided to First Charter s shareholders pursuant to the merger agreement; alter or change any term of the articles of incorporation of the surviving corporation if such alteration or change would adversely affect the holders of any securities of First Charter; or alter or change any of the terms and conditions of the merger agreement if such alteration or change would adversely affect the holders of any securities of First Charter.

Termination Fee

First Charter must pay Fifth Third a termination fee of $32,500,000.00 in immediately available federal funds if the merger agreement is terminated in any of the following circumstances:

by Fifth Third because of a material breach of a representation, warranty or covenant by First Charter or because of a failure by the First Charter Board of Directors to recommend the merger agreement in the proxy statement, or in a manner adverse to Fifth Third, because of a (1) withdrawn, modified or

qualified recommendation by the First Charter Board of Directors of the merger agreement and/or the merger to First Charter s shareholders; (2) public action or public statement by First Charter s Board of Directors in connection with the meeting of First Charter shareholders with such recommendation; or (3) a recommendation of any alternative proposal by First Charter s Board of Directors; and prior to such termination, an alternative transaction with respect to First Charter was commenced, publicly proposed or publicly disclosed; and within 12 months after such termination, First Charter shall have entered into a definitive written agreement relating to an alternative transaction or any alternative transaction shall have been consummated; or

by Fifth Third, if, after receiving an alternative proposal, (1) the First Charter Board of Directors does not take action to convene the First Charter shareholders meeting or recommends that First Charter shareholders adopt the definitive written agreement relating to the alternative proposal and (2) within 12 months after such receipt (A) First Charter shall have entered into a definitive written agreement relating to such alternative transaction or (B) any alternative transaction shall have been consummated.

Fifth Third shall not be entitled to the termination fee if:

the merger agreement is terminated by mutual agreement of the parties;

the merger agreement is terminated due to the failure to obtain regulatory approval by the appropriate governmental entities or due to a final and nonappealable order by a governmental entity enjoining or prohibiting the consummation of the merger; or

the merger agreement is terminated by First Charter for the breach by Fifth Third of its representations, warranties, covenants or agreements set forth in the merger agreement which breach, either individually or in the aggregate results in the failure of the conditions to obligations of Fifth Third or First Charter and is either incurable or is not cured within 45 days.

Interests of First Charter s Directors and Executive Officers in the Merger

Shares of First Charter common stock held by or for the benefit of directors and executive officers of First Charter will be cancelled and converted into the right to receive the merger consideration on the same basis as shares held by you and the other shareholders of First Charter. In addition, directors and executive officers of First Charter have the following interests in the merger that are different from, or in addition to, those of you and the other shareholders of First Charter.

First Charter Employment Agreements. Fifth Third has entered into new employment agreements with Robert E. James, Jr., First Charter s President and Chief Executive Officer, Stephen M. Rownd, First Charter s Executive Vice President and Chief Banking Officer and Jeffrey Scott Ensor, First Charter s Executive Vice President and Chief Risk Officer. The First Charter employment agreements of Messrs. James and Rownd, including applicable change-in-control provisions within such agreements, will terminate in accordance with the terms of their new Fifth Third employment agreements. The new Fifth Third employment agreement with Mr. Ensor will expressly terminate the change-in control agreement between Mr. Ensor and First Charter.

Fifth Third will employ Mr. James as the President and CEO of the Fifth Third affiliate headquartered in Charlotte, North Carolina for a period of three years. Mr. James will receive a base salary of $425,006.40 per year. In addition, Mr. James will be eligible to receive a bonus with a target payment of 60% with a maximum potential of 120% of his base salary and long-term incentive grants up to $600,000.00 on the same terms and conditions as similarly situated employees. Mr. James will also be entitled to receive additional benefits described below, as well as executive perquisites. As compensation for terminating the First Charter employment agreement, Mr. James will receive a

lump-sum cash payment in the amount of $353,960.00. As consideration for entering into his covenant not to compete, Mr. James will receive $1,750,000.00.

Fifth Third will employ Mr. Rownd as Executive Vice President of the Fifth Third affiliate headquartered in Charlotte, North Carolina for a period of three years. Mr. Rownd will receive a base salary of $282,713.60 per year. In addition, Mr. Rownd will be entitled to receive a bonus with a target payment of 45% of his base salary and long-term grants on the same terms and conditions as similarly situated employees. Mr. Rownd will

also be eligible to receive additional benefits described below, as well as executive perquisites. As compensation for terminating the First Charter employment agreement, Mr. Rownd will receive a lump-sum cash payment in the amount of $713,626.00. As consideration for entering into his covenant not to compete, Mr. Rownd will receive $530,000.00.

Fifth Third will employ Mr. Ensor as Executive Vice President of the Fifth Third affiliate headquartered in Charlotte, North Carolina for a period of three years. Mr. Ensor will receive a base salary of $237,619.20 per year. In addition, he will be eligible to receive a bonus with a target payment of 45% of his base salary and long-term incentive grants on the same terms and conditions as similarly situated employees. Mr. Ensor will also be eligible to receive additional benefits described below, as well as executive perquisites. As compensation for terminating the First Charter change-in-control agreement, Mr. Ensor will receive a lump-sum cash payment in the amount of approximately $240,000.

The new Fifth Third employment agreements with Messrs. James, Rownd and Ensor provide that each is eligible to participate on a nondiscriminatory basis in any 401(k), vacation, disability, life or medical insurance or other benefit plan adopted by Fifth Third or any affiliate to the extent such plan is made available to similarly situated employees of Fifth Third in accordance with the terms of such plans. The new Fifth Third employment agreements provide that each will also be eligible to participate in any benefit plan or program made available to senior management employees and/or directors of Fifth Third in accordance with the terms and conditions of those plans. In the event of death, the new Fifth Third employment agreements provide that the personal representative of each shall be paid all earned but unpaid base salary and accrued bonus and an additional amount representing one year s base salary. In the event of termination of the employment agreements of Messrs. James, Rownd and Ensor due to disability, each will be entitled to receive all earned but unpaid base salary and accrued bonus and an additional amount representing one year s base salary, less any amount that each receives from Fifth Third s long-term disability plan. In addition, in the event of death or disability, all supplemental benefits, awards, grants and options under any Fifth Third or First Charter supplemental agreement, stock option or grant will be fully vested. If Fifth Third terminates the employment of Messrs. James, Rownd or Ensor for cause (as defined in the agreement), or if Messrs. James, Rownd or Ensor resign without good reason (as defined in the agreement), each will be entitled only to receive all earned but unpaid base salary, unreimbursed expenses and/or accrued, vested stock options and vested 401(k) or pension benefits through the effective date of the termination for cause or resignation without good reason. If Fifth Third terminates the employment of Messrs. James, Rownd or Ensor without cause or Messrs. James, Rownd or Ensor terminate their employment for good reason, each will be entitled to (i) all accrued, unpaid base salary and unreimbursed expenses through the date of such termination; (ii) any prior year annual incentive bonus earned but not yet paid; (iii) continued payment of their base salary for the remainder of the employment term; (iv) an annual bonus amount for the remainder of the employment term (calculated as the target bonus in effect at the time of the termination); (v) continuation of health and welfare benefit coverage (including coverage for their dependents to the extent such coverage is provided by Fifth Third for its employees generally) under such plans and programs to which they were entitled to participate immediately prior to the date of the end of their employment for the remainder of the employment term; and (vi) acceleration of vesting of all supplemental benefits.

If any amounts to be paid to Messrs. James and Rownd would be subject to the excise tax imposed by Section 4999 of the Code, then Messrs. James and Rownd shall also be entitled to receive a gross-up payment. The aggregate value of the gross-up payments is expected to be approximately $675,000 for Mr. James and $812,000 for Mr. Rownd.

First Charter Agreements Regarding Change-in-Control Benefits. Fifth Third will also honor First Charter change-in-control agreements with each of Cecil O. Smith, Jr., First Charter s Executive Vice President and Chief Information Officer, Stephen J. Antal, First Charter s Executive Vice President, General Counsel and Corporate Secretary, Josephine P. Sawyer, Senior Vice President and Director of Human Resources and Sheila Stoke, First Charter s Senior Vice President, Controller and interim principal financial officer, regarding the change-in-control

benefits payable to such executives as a result of the merger. The agreements provide a definitive statement of the payments and benefits to be provided to the employees. The agreements provide that the consummation of the merger and termination of employment under specified circumstances within one

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year thereafter triggers the obligation to provide those payments and benefits. Such benefits include the payment of COBRA premium costs for the continuation of group medical plan coverage for the executives and their eligible dependents for a period specified in the agreements. The aggregate value of the benefits to be received by such executives in the event of the consummation of the merger and subsequent termination of employment is $1,203,300.00.

Excess Parachute Payments. The new Fifth Third employment agreement for Mr. Ensor provides that no portion of the payment(s) made under Mr. Ensor s employment agreement shall be deemed to be an Excess Parachute Payment pursuant to Section 280G of the Internal Revenue Code. Mr. Ensor and Fifth Third agree that the present value of any payment under the employment agreement and any other payment to or for the benefit of Mr. Ensor in the nature of compensation, receipt of which is contingent on a change-in-control (as defined in the employment agreement), and to which Section 280G of the Code applies, shall not exceed an amount equal to one dollar less than the maximum amount Mr. Ensor may receive without becoming subject to the tax imposed by Section 4999 of the Code. In the event that Sections 280G and 4999 of the Code or any successor provisions are repealed without succession, this provision of Mr. Ensor s employment agreement shall no longer apply.

The First Charter agreements regarding change-in-control benefits between First Charter and Mr. Smith, Ms. Stoke, Mr. Antal and Ms. Sawyer provide that no portion of the payment(s) made to these individuals shall be deemed to be an Excess Parachute Payment pursuant to Section 280G of the Internal Revenue Code. The present value of any payment under the agreements regarding change in control and any other payment to or for the benefit of Mr. Smith, Ms. Stoke, Mr. Antal and Ms. Sawyer in the nature of compensation, receipt of which is contingent on a change in control, and to which Section 280G of the Code applies, shall not exceed an amount equal to one dollar less than the maximum amount these individuals may receive without becoming subject to the tax imposed by Section 4999 of the Code.

Director Advisory Fees. Upon consultation with each member of the First Charter Board of Directors, Fifth Third has agreed to offer each such director either (1) a seat on a Fifth Third local advisory board for the region formerly served by First Charter for a one year period after the effective date of the merger or (2) a one-year advisory and consulting contract. In either case, for a period of one-year after the effective date of the merger, Fifth Third shall pay quarterly compensation to such directors consistent with the existing fee structure offered by First Charter to such directors. We expect the payments under the existing fee structure to be approximately $65,000 per director for the one year following the merger. If service as a director or consultant would continue after such year, Fifth Third and each such person will need to mutually agree on any compensation for such continued service.

Performance Share Awards. First Charter has granted performance share awards to certain executive officers under its 2000 Omnibus Stock Option and Award Plan. As of the effective time of the merger (1) all performance objectives with respect to such performance shares shall be deemed to be satisfied to the extent necessary to earn 100% of the performance shares, (2) the performance period shall be deemed to be complete, (3) such performance shares shall be converted to actual performance share awards (as defined in the Performance Share Award Agreements under the 2000 Omnibus Stock Option and Award Plan) and (4) the actual performance share awards shall be paid out in cash as soon as practicable in accordance with the 2000 Omnibus Stock Option and Award Plan.

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The effect of the conversion of the performance share awards to performance shares to be paid out in cash for each of the executive officers and the executive officers as a group will be as follows:

Name	Performance Share Awards Converted to Performance Shares as a Result of the Merger		Cash Received as a Result of the Conversion
Stephen J. Antal	8,000	$	248,000
J. Scott Ensor	9,900	$	306,900
Robert E. James, Jr.	31,500	$	976,500
Stephen M. Rownd	14,300	$	443,300
Josephine P. Sawyer	7,900	$	244,900
Cecil O. Smith, Jr.	12,600	$	390,600
All executive officers	84,200	$	2,610,200

Restricted Stock. First Charter has awarded Restricted Stock to certain directors, executive officers and key employees under its 2000 Omnibus Stock Option and Award Plan and its Restricted Stock Award Program. As of the effective time of the merger (1) all restrictions with respect to such Restricted Stock shall be deemed to have lapsed, (2) the restriction period shall be deemed to have ended and (3) such Restricted Stock shall entitle the participant to make an election with respect to the merger consideration to be received in the merger.

The effect of the acceleration of the restricted stock held by the executive officers of First Charter, by all executive officers as a group and by all directors and executive officers as a group will be as follows:

Name	Shares of Previously Restricted Stock Becoming Unrestricted After the Effective Date of the Merger
Stephen J. Antal	600
Sheila Stoke	3,000
All executive officers	3,600
Non-employee directors	17,316
Total	20,916

Stock Options. First Charter has granted stock options to certain directors, executive officers and key employees under its Comprehensive Stock Option Plan and its 2000 Omnibus Stock Option and Award Plan. Prior to the consummation of the merger, the options awarded under the Comprehensive Stock Option Plan and its 2000 Omnibus Stock Option and Award Plan by First Charter s Board of Directors shall fully and immediately vest as of the effective

time of the merger without any action on the part of the holders of the options or awards. After completion of the merger, all outstanding options will be converted into options to purchase Fifth Third common stock. The number of shares subject to these options will be adjusted to allow the holder, upon exercise, to receive shares of Fifth Third common stock calculated by multiplying the conversion ratio by the number of shares of First Charter common stock subject to the options, and the exercise price of the First Charter stock options will be adjusted by dividing the exercise price per share by the conversion ratio.

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The effect of the acceleration of the exercisability on the First Charter options held by the executive officers of First Charter, by all executive officers as a group and by all directors and executive officers as a group will be as follows:

Name	Options Held	Options Exercisable as of the Special Meeting Date	Options Vesting as a Result of the Acceleration
Stephen J. Antal	16,924	7,924	9,000
J. Scott Ensor	29,791	18,251	11,540
Robert E. James, Jr.	175,717	140,717	35,000
Stephen M. Rownd	38,785	22,785	16,000
Josephine P. Sawyer	14,800	5,940	8,860
Cecil O. Smith, Jr.	22,638	8,618	14,020
All executive officers	298,655	204,235	94,420
Non-employee directors	151,947	151,947	0
Total	450,602	356,182	94,420

Fifth Third will file a registration statement with the SEC to register the shares of Fifth Third common stock issuable pursuant to these options, which is anticipated to take place at or about the effective time of the merger. Holders of these options may not exercise the options until this registration statement has become effective.

Indemnification and Liability Insurance. Fifth Third will assume the permissible obligations of First Charter or any of its subsidiaries arising under applicable North Carolina and federal law and under First Charter s or any subsidiary s articles of incorporation, charter or bylaws, to indemnify each officer or director of First Charter or any of its subsidiaries against liabilities in connection with any claim arising out of the fact that such person is or was a director or officer of First Charter or any of its subsidiaries, if such claim pertains to any matter occurring prior to the effective time of the merger, regardless of whether such claim is asserted prior to, at or after the effective time of the merger. Fifth Third also shall cause the individuals serving as officers and directors of First Charter or any of its subsidiaries immediately before the effective time to be covered for six-year period from the effective time of the merger by the directors and officers liability insurance policy maintained by First Charter providing coverage for acts or omissions of the type currently covered by First Charter s existing directors and officers liability insurance for acts or omissions occurring on or prior to the effective time of the merger, but only to the extent that this insurance may be permissible under banking laws and may be purchased or kept in full force on commercially reasonable terms. Fifth Third and First Charter have agreed that these costs shall be commercially reasonable so long as they do not exceed 300% of the annual premiums currently paid for such coverage by First Charter. If Fifth Third is unable to maintain such policy (or such substitute policy) as a result of the commercially unreasonable premiums, Fifth Third shall obtain as much comparable insurance as is available for the premium amount.

Effect on First Charter s Employees

Employment. Fifth Third will consider employing as many of the employees of First Charter and its subsidiaries who desire employment within the Fifth Third holding company system as possible, to the extent of available positions and consistent with Fifth Third s standard staffing levels and personnel policies.

Fifth Third Employee Benefit Plans. For a six-month period following the effective time of the merger, Fifth Third will provide each of the employees of First Charter (as of the effective time of the merger) who continue employment with Fifth Third with employee benefits, rates of base salary or hourly wage and annual bonus opportunities that are substantially similar, in the aggregate, to the aggregate rates of base pay or hourly wage and employee benefits and annual bonus opportunities provided to such employees under the First Charter compensation and benefit plans as in effect immediately before the effective time of the merger. Fifth Third will offer or provide to each of the employees of First Charter and its subsidiaries who become employees of Fifth Third, as a group, participation in employee benefit plans and arrangements available for

similarly situated employees of Fifth Third. Former First Charter employees will be given credit for service with First Charter and its subsidiaries for purposes of eligibility, vesting and accrual of benefits. No former First Charter employee will be entitled to participate in the Fifth Third Bancorp Master Retirement Plan (which has been frozen to new participants).

Severance. The merger agreement provides for the payment of severance amounts to employees of First Charter who do not have an employment, change-in-control or severance agreement under certain conditions upon termination of employment. During the period beginning at the effective time of the merger and ending six months following the effective time, such employees shall be entitled to receive severance payments and benefits in an amount and form as generally described in Fifth Third s severance policy in effect immediately before the date of the merger agreement (including customary releases); however, the maximum severance pay amounts described in such severance policy shall not apply and shall, instead, be limited to a maximum 52-week severance pay amount, regardless of employee classification. Employees shall also be entitled to receive payment of COBRA premium costs for the continuation of group medical insurance benefit coverage for such employees and their eligible dependents for a period equal to the total number of weeks of base salary/wages available to such employees as severance pay.

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FIFTH THIRD BANCORP

Description of Business

Fifth Third, with its principal office located in Cincinnati, Ohio, is an Ohio corporation organized in 1975 as a bank holding company registered under the Bank Holding Company Act of 1956 and subject to regulation by the Federal Reserve Board. Fifth Third has elected to become a financial holding company under that Act. Fifth Third s three wholly owned subsidiary depositary institutions have over 1,100 banking centers in Ohio, Kentucky, Indiana, Illinois, Michigan, Florida, Tennessee, West Virginia, Pennsylvania and Missouri. Those institutions are: Fifth Third Bank, Fifth Third Bank (Michigan) and Fifth Third Bank, National Association.

Fifth Third s subsidiaries provide a wide range of financial products and services to the retail, commercial, financial, governmental, educational and medical sectors, including a wide variety of checking, savings and money market accounts, and credit products such as credit cards, installment loans, mortgage loans and leases. Each of the banking subsidiaries has deposit insurance provided by the Federal Deposit Insurance Corporation through the Deposit Insurance Fund.

As of September 30, 2007, Fifth Third, its affiliated banks and other subsidiaries had consolidated total assets of approximately $104.3 billion, consolidated total deposits of approximately $69.4 billion and consolidated total shareholders equity of approximately $9.3 billion.

Fifth Third operates five business segments: Commercial Banking, Branch Banking, Consumer Lending, Investment Advisors and Fifth Third Processing Solutions. During the first quarter of 2006, Fifth Third began separating its retail line of business into the Branch Banking and Consumer Lending business segments. Fifth Third believes that banking is first and foremost a relationship business where the strength of the competition and challenges for growth can vary in every market. Its affiliate operating model provides a competitive advantage by keeping the decisions close to the customer and by emphasizing individual relationships. Through its affiliate operating model, individual managers from the banking center to the executive level are given the opportunity to tailor financial solutions for their customers.

Fifth Third is a corporate entity legally separate and distinct from its subsidiaries. The principal source of Fifth Third s income is dividends from its subsidiaries. There are certain regulatory restrictions as to the extent to which the subsidiaries can pay dividends or otherwise supply funds to Fifth Third. See Description of Capital Stock and Comparative Rights of Shareholders Dividends.

Additional Information

For more detailed information about Fifth Third, reference is made to the Fifth Third Amendment on Form 10-K/A to its Annual Report on Form 10-K for the year ended December 31, 2006, Quarterly Reports on Form 10-Q for the quarters ended March 31, 2007, June 30, 2007 and September 30, 2007 and Current Reports on Form 8-K filed with the SEC on January 16, January 22, March 30, May 10, July 27, July 30, August 7, August 8, August 16, August 17, September 27, October 29, October 31, 2007 and November 9, 2007, each of which are incorporated into this document by reference, except for information furnished in those filings, including but not limited to, Items 2.02 and 7.01 of Form 8-K, which information is not deemed filed and is not incorporated by reference herein. See Where You Can Find More Information. More information about Fifth Third is also contained in its 2006 Annual Report to Shareholders which is available through Fifth Third s website at https://www.53.com/wps/portal/av?New_WCM_Context=http://www.53.com/wps/wcm/connect/FifthThirdSite/Abou-t+53/Inv

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FIRST CHARTER CORPORATION

Description of Business

First Charter is a bank holding company established as a North Carolina corporation in 1983 and is registered under the Bank Holding Company Act of 1956, as amended (the BHCA). Its principal asset is the stock of its banking subsidiary, First Charter Bank (First Charter Bank). The principal executive offices of First Charter and First Charter Bank are located at 10200 David Taylor Drive, Charlotte, North Carolina 28262-2373. The telephone number is (704) 688-4300.

First Charter Bank, a North Carolina state bank, is the successor entity to The Concord National Bank, which was established in 1888. On November 1, 2006, First Charter completed its acquisition of GBC Bancorp, Inc., parent of Gwinnett Banking Company (Gwinnett Bank), its banking subsidiary, headquartered in Lawrenceville, Georgia (the GBC Merger). As a result of the GBC Merger, Gwinnett Bank became a subsidiary of First Charter. Effective March 1, 2007, Gwinnett Bank was merged with and into First Charter Bank. Gwinnett Bank operated two financial centers located in Lawrenceville, Georgia and Alpharetta, Georgia.

First Charter operates 60 financial centers and four insurance offices, as well as 137 ATMs (automated teller machines) in North Carolina and Georgia and operates loan origination offices in Asheville, North Carolina and Reston, Virginia.

First Charter s primary market area is located within North Carolina and is centered primarily around the Charlotte Metro region, including Mecklenburg County and its surrounding counties. Charlotte is the twenty-first largest city in the United States and has a diverse economic base. Primary business sectors in the Charlotte Metro region include banking and finance, insurance, manufacturing, health care, transportation, retail, telecommunications, government services and education. In October 2005 and February 2006, First Charter expanded into the Raleigh, North Carolina market with the opening of one and three *de novo* financial centers, respectively. A fifth financial center opened in Raleigh in late January 2007. Raleigh has an economic base similar to that found in Charlotte. Since the North Carolina economy has historically relied on the manufacturing and transportation sectors, it has been significantly impacted by global competition and rising energy prices. As a result, the North Carolina economy is transitioning to a more service-oriented economy. Recently, the education, healthcare, financial and business services industries have shown the most growth.

As a result of the GBC Merger, First Charter entered the Atlanta, Georgia market on November 1, 2006. Gwinnett Bank was organized in 1996 and opened its main office in Lawrenceville, Gwinnett County, Georgia, in 1997. An additional financial center, in Alpharetta, Fulton County, Georgia, opened in 2001. Gwinnett and Fulton Counties have a diverse economic base. Primary business sectors include education, government, health and social services, retail trade, manufacturing, financial and other professional services.

Through its financial centers, First Charter Bank provides a wide range of banking products, including interest-bearing and noninterest-bearing checking accounts, money-market accounts, certificates of deposit, individual retirement accounts, full service and discount brokerage services including annuity sales, overdraft protection, financial-planning services, personal and corporate trust services, safe deposit boxes and online banking. It also provides commercial, consumer, real estate, residential mortgage and home-equity loans.

In addition, First Charter Bank also operates two subsidiaries: First Charter Insurance Services, Inc. (First Charter Insurance) and First Charter Leasing and Investments, Inc. (First Charter Leasing). First Charter Insurance is a North Carolina corporation formed to meet the insurance needs of businesses and individuals. First Charter Leasing is a

North Carolina corporation that administers leases and manages investment securities. It also acts as the holding company for First Charter of Virginia Realty Investments, Inc., a Virginia corporation (First Charter Virginia). First Charter Virginia is engaged in the mortgage origination business and also acts as the holding company for First Charter Realty Investments, Inc., a Delaware real estate investment trust (First Charter Realty). First Charter Realty is the holding company for FCB Real Estate, Inc., a North Carolina real estate investment trust, and First Charter Real Estate Holdings, LLC, a North Carolina limited liability company, which owns and maintains the real estate property and assets

of First Charter. FCB Real Estate, Inc. primarily invests in commercial and 1-4 family residential real estate loans. First Charter Bank also has a majority ownership in Lincoln Center at Mallard Creek, LLC (LCMC), a North Carolina limited liability company. LCMC sold Lincoln Center, a three-story office building and its principal asset, during 2006. First Charter Insurance and one of First Charter Bank s financial centers continue to lease a portion of Lincoln Center.

At September 30, 2007, First Charter and its subsidiaries had 1,113 full-time equivalent employees. First Charter had no employees who were not also employees of First Charter Bank. First Charter considers its relations with its employees to be good.

Due to the diverse economic base of the markets in which it operates, First Charter believes that it is not dependent on any one or a few customers or types of commerce whose loss would have a material adverse effect on First Charter.

First Charter operates one reportable segment, First Charter Bank. See Note 16 of the consolidated financial statements for the quarter ended September 30, 2007 included with this proxy statement/prospectus.

Competition

First Charter s primary market area is located within North Carolina and Atlanta, Georgia. Banking activities in these areas are highly competitive, and First Charter has active competition in all areas in which it presently engages in business. Within these areas are numerous branches of national, regional and local institutions. In its market area, First Charter faces competition from other banks, including four of the largest banks in the country, savings and loan associations, savings banks, credit unions, finance companies, brokerage firms, insurance companies and major retail stores that offer competing financial services. Many of these competitors have greater resources, broader geographic coverage and higher lending limits than First Charter Bank. First Charter Bank s primary method of competition is to provide its clients with a broad array of financial products and solutions, delivered with exceptional service and convenience at a fair price.

Government Supervision and Regulation

General. As a registered bank holding company, First Charter is subject to the supervision of, and regular inspection by, the Board of Governors of the Federal Reserve System (the Federal Reserve). First Charter Bank is a North Carolina chartered-banking corporation and a Federal Reserve member bank, with deposits insured by the Federal Deposit Insurance Corporation (the FDIC). First Charter Bank is subject to extensive regulation and examination by the Federal Reserve, the Office of the Commissioner of Banks of the State of North Carolina (the NC Commissioner) under the direction and supervision of the North Carolina Banking Commission (the NC Banking Commission) and the FDIC, which insures its deposits to the maximum extent permitted by law.

The federal and state laws and regulations applicable to First Charter Bank deal with required reserves against deposits, allowable investments, loans, mergers, consolidations, issuance of securities, payment of dividends, establishment of branches, limitations on credit to subsidiaries and other aspects of the business of such subsidiaries. The federal and state banking agencies have broad authority and discretion in connection with their supervisory and enforcement activities and examination policies, including policies involving the classification of assets and the establishment of loan loss reserves for regulatory purposes. Such actions by the regulators prohibit member banks from engaging in unsafe or unsound banking practices. First Charter Bank is also subject to certain reserve requirements established by the Federal Reserve Board. First Charter Bank is a member of the Federal Home Loan Bank (the FHLB) of Atlanta, which is one of the 12 regional banks comprising the FHLB System.

In addition to state and federal banking laws, regulations and regulatory agencies, First Charter and First Charter Bank are subject to various other laws, regulation and supervision and examination by other regulatory agencies, all of which directly or indirectly affect First Charter s operations, management and ability to make distributions. The following discussion summarizes certain aspects of those laws and regulations that affect First Charter.

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Gramm-Leach-Bliley Financial Modernization Act of 1999. The Gramm-Leach-Bliley Financial Modernization Act of 1999 (the GLB Act) eliminated certain legal barriers separating the conduct of various types of financial service businesses, such as commercial banking, investment banking and insurance in addition to substantially revamping the regulatory scheme within which First Charter operates. Under the GLB Act, bank holding companies meeting management, capital and Community Reinvestment Act standards, and that have elected to become a financial holding company, may engage in a substantially broader range of traditionally nonbanking activities than was permissible before enactment, including insurance underwriting and making merchant-banking investments in commercial and financial companies. First Charter has not elected to become a financial holding company. The GLB Act also allows insurers and other financial services companies to acquire banks, removes various restrictions that currently apply to bank holding company ownership of securities firms and mutual fund advisory companies, and establishes the overall regulatory structure applicable to bank holding companies that also engage in insurance and securities operations.

Restrictions on Bank Holding Companies. The Federal Reserve is authorized to adopt regulations affecting various aspects of bank holding companies. Under the BHCA, First Charter s activities and those of companies that it controls or in which it holds more than five percent of the voting stock are limited to certain activities including banking, managing or controlling banks, furnishing or performing services for subsidiaries, or any other activity that the Federal Reserve determines to be so closely related to banking, managing or controlling banks that it is also considered a covered activity. In making those determinations, the Federal Reserve is required to consider whether the performance of such activities by a bank holding company or its subsidiaries can be expected to reasonably produce benefits to the public such as greater convenience, increased competition or gains in efficiency that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices. The BHCA, as amended by the GLB Act, generally limits the activities of a bank holding company (unless the bank holding company has elected to become a financial holding company) to activities that are closely related to banking and a proper incident thereto.

Generally, bank holding companies are required to obtain prior approval of the Federal Reserve to engage in any new activity not previously approved by the Federal Reserve or when acquiring more than five percent of any class of voting stock of any company. The BHCA also requires bank holding companies to obtain the prior approval of the Federal Reserve before acquiring more than five percent of any class of voting stock of any bank that is not already majority owned by the bank holding company.

First Charter is also subject to the North Carolina Bank Holding Company Act of 1984. This state legislation requires First Charter, by virtue of its ownership of First Charter Bank, to register as a bank holding company with the NC Commissioner. In addition, as a result of its acquisition of Gwinnett Bank, First Charter is required to register as a bank holding company with the Georgia Department of Banking and Finance.

Interstate Banking and Branching Legislation. Pursuant to the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 (the Interstate Banking and Branching Act), a bank holding company may acquire banks in states other than its home state, without regard to the permissibility of those acquisitions under state law, but subject to any state requirement that the bank has been organized and operating for a minimum period of time, not to exceed five years, and other conditions, including deposit concentration limits.

The Interstate Banking and Branching Act also authorized banks to merge across state lines, thereby creating interstate branches. Under this legislation, each state had the opportunity either to opt out of this provision, thereby prohibiting interstate branching in such states, or to opt in. The State of North Carolina elected to opt in to such legislation. Furthermore, pursuant to the Interstate Banking and Branching Act, a bank is now able to open new branches in a state in which it does not already have banking operations, if the laws of such state permit such *de novo* branching.

Consumer Protection. In connection with its lending and leasing activities, First Charter Bank and its subsidiaries are subject to a number of federal and state laws designed to protect borrowers and promote lending to various sectors of the economy and population. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Home Mortgage Disclosure Act and the Real Estate Settlement Procedures Act, as well as state law counterparts.

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Title V of the GLB Act, along with other provisions of federal law, currently contains extensive consumer privacy protection provisions. Under these provisions, a financial institution must provide its customers, at the inception of the customer relationship and annually thereafter, the financial institution s policies and procedures for collecting, disclosing and protecting nonpublic personal financial information. These provisions also provide that, except for certain limited exceptions, a financial institution may not provide nonpublic personal information to nonaffiliated third parties unless the financial institution discloses to the customer that the information may be provided and the customer is given the opportunity to opt out of that disclosure. Federal law makes it a criminal offense, except in limited circumstances, to obtain or attempt to obtain customer information of a financial nature by fraudulent or deceptive means.

The Community Reinvestment Act of 1977 requires First Charter Bank s primary federal regulatory agency, in this case the Federal Reserve, to assess its ability to meet the credit needs of low- and moderate-income persons. Financial institutions are assigned one of four ratings: Outstanding, Satisfactory, Needs to Improve or Substantial Noncompliance. As of First Charter Bank s latest examination, it had a Satisfactory rating.

The USA PATRIOT Act. After the September 11, 2001 terrorist attacks in New York and Washington, D.C., the United States government attempted to tighten control on activities perceived to be connected to money laundering and terrorist funding. A series of orders were issued that attempt to identify terrorists and terrorist organizations and require the blocking of property and assets of, as well as prohibiting all transactions or dealings with, such terrorists, terrorist organizations and those that assist or sponsor them. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA PATRIOT Act) substantially broadened existing anti-money-laundering legislation and the extraterritorial jurisdiction of the United States, imposed new compliance and due diligence obligations, created new crimes and penalties, compelled the production of documents located both inside and outside the United States, including those of foreign institutions that have a correspondent relationship in the United States, and clarified the safe harbor from civil liability to customers. Originally passed into law in October 2001, the USA PATRIOT Act was renewed in March 2006. In addition, the United States Treasury Department issued regulations in cooperation with the federal banking agencies, the Securities and Exchange Commission, the Commodity Futures Trading Commission and the Department of Justice that require customer identification and verification, expand the money-laundering program requirement to the major financial services sectors including insurance and unregistered investment companies such as hedge funds, and facilitate and permit the sharing of information between law enforcement and financial institutions and among financial institutions. The United States Treasury Department also has created the Treasury USA PATRIOT Act Task Force to work with other financial regulators, the regulated community, law enforcement and consumers to continually improve regulation.

Sarbanes-Oxley Act of 2002. On July 30, 2002, the Sarbanes-Oxley Act was enacted, which addressed corporate governance and securities reporting requirements for companies with securities registered under the Securities Exchange Act of 1934, as amended (the Exchange Act). Among its requirements are changes in auditing and accounting and the inclusion of certifications of certain securities filings by principal executive officers and principal financial officers. It also expanded reporting of information in current reports filed with the Securities and Exchange Commission and requires more detailed reporting information in securities disclosure documents in a more timely manner. The NASDAQ Global Select Market has also modified its corporate governance rules with an intent to allow shareholders to more easily and efficiently monitor the performance and activities of companies and their executive officers and directors.

Capital and Operational Requirements

First Charter and First Charter Bank must comply with the minimum capital adequacy standards set by the Federal Reserve and the FDIC, which are substantially similar. The risk-based guidelines define a three-tier capital framework, under which First Charter and First Charter Bank are required to maintain a minimum ratio of Tier 1 Capital (as defined) to total risk-weighted assets of 4.00 percent and a minimum ratio of Total Capital (as defined) to risk-weighted assets of 8.00 percent. Tier 1 Capital includes common shareholders equity, qualifying trust preferred securities, qualifying minority interests and qualifying perpetual preferred

stock, less goodwill and other adjustments. Tier 2 Capital includes, among other items, perpetual or long-term preferred stock, certain intermediate-term preferred stock, hybrid capital instruments, perpetual debt and mandatorily convertible debt securities, qualifying subordinated debt, and the allowance for credit losses up to 1.25 percent of risk-weighted assets. Tier 3 Capital includes subordinated debt that is unsecured, fully paid up, has an original maturity of at least two years, is not redeemable before maturity without prior approval of the Federal Reserve and includes a lock-in clause precluding payment of either interest or principal if the payment would cause the issuing bank s risk-based capital ratio to fall or remain below the required minimum. The sum of Tier 1 and Tier 2 Capital less investments in unconsolidated subsidiaries is equal to qualifying total capital. Risk-based capital ratios are calculated by dividing Tier 1 and Total Capital by risk-weighted assets. Risk-weighted assets refer to the on- and off-balance sheet exposures of First Charter and First Charter Bank, as adjusted for one of four categories of applicable risk-weights established in Federal Reserve regulations, based primarily on relative credit risk. At September 30, 2007, First Charter and First Charter Bank were in compliance with the risk-based capital requirements. First Charter s Tier 1 and Total Capital Ratios at September 30, 2007 were 11.02 percent and 12.10 percent, respectively. First Charter did not have any subordinated debt that qualified as Tier 3 Capital at September 30, 2007. The leverage ratio is calculated by dividing Tier 1 Capital by adjusted total assets. First Charter s leverage ratio at September 30, 2007 was 9.17 percent. First Charter meets its leverage ratio requirement.

In addition to the above-described capital requirements, the federal regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels due to the organization s financial condition or actual or anticipated growth.

Prompt Corrective Action under FDICIA. The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), among other things, identifies five capital categories for insured depository institutions (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized) and requires the respective federal regulatory agencies to implement systems for prompt corrective action for insured depository institutions that do not meet minimum capital requirements within such categories. FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. Failure to meet the capital guidelines could also subject a banking institution to capital raising requirements. In addition, pursuant to FDICIA, the various regulatory agencies have prescribed certain non-capital standards for safety and soundness relating generally to operations and management, asset quality and executive compensation, and such agencies may take action against a financial institution that does not meet the applicable standards.

The various regulatory agencies have adopted substantially similar regulations that define the five capital categories identified by FDICIA, using the Total Risk-Based Capital, Tier 1 Risk-Based Capital and Leverage Capital Ratios as the relevant capital measures. Such regulations establish various degrees of corrective action to be taken when an institution is considered undercapitalized. Under the regulations, a well capitalized institution must have (i) a Tier 1 Capital ratio of at least 6.00 percent, (ii) a Total Capital ratio of at least 10.00 percent, (iii) a Leverage ratio of at least 5.00 percent and (iv) not be subject to a capital directive order. An adequately capitalized institution must have a Tier 1 Capital ratio of at least 4.00 percent, a Total Capital ratio of at least 8.00 percent and a leverage ratio of at least 4.00 percent, or 3.00 percent in some cases. Under these guidelines, First Charter and First Charter Bank were considered well capitalized as of September 30, 2007. See Note 15 of the consolidated financial statements for the quarter ended September 30, 2007 included with this proxy statement/prospectus.

Banking agencies have also adopted regulations that mandate that regulators take into consideration (i) concentrations of credit risk, (ii) interest rate risk and (iii) risks from nontraditional activities, as well as an institution s ability to manage those risks, when determining the adequacy of an institution s capital. This evaluation is made as a part of the institution s regular safety and soundness examination. In addition, the banking agencies have amended their regulatory capital guidelines to incorporate a measure for market risk. In accordance with amended guidelines, a

corporation or bank with significant trading activity (as defined in the amendment) must incorporate a measure for market risk in its regulatory capital calculations. The revised guidelines do not materially impact First Charter s or First Charter Bank s regulatory capital ratios or First Charter Bank s well-capitalized status.

Distributions. First Charter is a legal entity separate and distinct from its subsidiaries. The primary source of funds for distributions paid by First Charter to its shareholders is dividends received from First Charter Bank, and First Charter Bank is subject to laws and regulations that limit the amount of dividends it can pay. The Federal Reserve regulates the amount of dividends First Charter Bank can pay to First Charter based on net profits for the current year combined with the undivided profits for the last two years, less dividends already paid. See Note 15 of the consolidated financial statements for the quarter ended September 30, 2007 included with this proxy statement/prospectus. North Carolina laws provide that, subject to certain capital requirements, a board of directors of a North Carolina bank may declare a dividend of as much of the bank s undivided profits as it deems expedient.

In addition to the foregoing, the ability of First Charter and First Charter Bank to pay dividends may be affected by the various minimum capital requirements and the capital and non-capital standards established under FDICIA, as described above. Furthermore, if in the opinion of a federal regulatory agency, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the bank, could include the payment of dividends), such agency may require, after notice and hearing, that such bank cease and desist from such practice. The right of First Charter, its shareholders, and its creditors to participate in any distribution of assets or earnings of First Charter Bank is further subject to the prior claims of creditors against First Charter Bank.

Deposit Insurance. The deposits of First Charter Bank are insured by the Deposit Insurance Fund (the DIF) of the FDIC, up to applicable limits. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the FDIC. The FDIC also has the authority to initiate enforcement actions against banking institutions, after giving the institution s primary regulator an opportunity to take such action.

In addition, First Charter Bank is subject to the deposit premium assessments of the DIF. The FDIC imposes a risk-based deposit premium assessment system, which was amended pursuant to the Federal Deposit Insurance Reform Act of 2005 (the Reform Act). Under this system, as amended, the assessment rates for an insured depository institution vary according to the level of risk incurred in its activities. To arrive at an assessment rate for a banking institution, the FDIC places it in one of four risk categories determined by reference to its capital levels and supervisory ratings. In addition, in the case of those institutions in the lowest risk category, the FDIC further determines the institution s assessment rate based on certain specified financial ratios or, if applicable, its long-term debt ratings. Beginning January 1, 2007, assessments can range from 5 to 43 basis points per $100 of assessable deposits, depending on the insured institution s risk category as described above. This assessment rate schedule can change from time to time, at the discretion of the FDIC, subject to certain limits. Under the current system, premiums are assessed quarterly.

The Reform Act also provides for a one-time premium assessment credit for eligible insured depository institutions, including those institutions in existence and paying deposit insurance premiums on December 31, 1996, or certain successors to any such institution. The assessment credit is determined based on the eligible institution s deposits at December 31, 1996, and is applied automatically to reduce the institution s quarterly premium assessments to the maximum extent allowed, until the credit is exhausted. In addition, insured deposits have been required to pay a pro rata portion of the interest due on the obligations issued by the Financing Corporation (FICO) to fund the closing and disposal of failed thrift institutions by the Resolution Trust Corporation.

Source of Strength. According to Federal Reserve policy, bank holding companies are expected to act as a source of financial strength to subsidiary banks and to commit resources to support each such subsidiary. This support may be required at times when a bank holding company may not be able to provide such support. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act, in the event of a loss suffered or anticipated by the

FDIC, either as a result of default of a banking or thrift subsidiary of First Charter or related to FDIC assistance provided to a subsidiary in danger of default, the other banking subsidiaries of First Charter may be assessed for the FDIC s loss, subject to certain exceptions.

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Future Legislation. Proposals to change the laws and regulations governing the banking industry are frequently introduced in Congress, in the state legislatures and before the various bank regulatory agencies. The likelihood and timing of any such proposals or bills being enacted and the impact they might have on First Charter and First Charter Bank cannot be determined at this time.

Regulatory Recommendations. First Charter and First Charter Bank are subject to federal and state banking regulatory reviews from time to time. As a result of these reviews, First Charter and First Charter Bank receive various observations and recommendations from their respective regulators. Observations represent suggestions for enhancements to policy or practice and may reference sound industry practices. Recommendations are provided to enhance oversight of, or to improve or strengthen, First Charter s or First Charter Bank s processes. First Charter does not believe that these observations and recommendations are material to First Charter. In addition, neither First Charter nor First Charter Bank is currently subject to any formal or informal corrective action with respect to any of their regulators.

Properties

The principal offices of First Charter are contained within the First Charter Center, located at 10200 David Taylor Drive in Charlotte, North Carolina, which is owned by First Charter Bank through its subsidiaries. The First Charter Center contains the corporate offices of First Charter as well as the operations, mortgage loan, and data processing departments of First Charter Bank.

First Charter operates 60 financial centers, four insurance offices and 137 ATMs located in North Carolina and Georgia. First Charter also leases facilities in Reston, Virginia and Asheville, North Carolina for loan origination.

Legal Proceedings

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

Market Price of and Dividends on Common Equity and Related Shareholder Matters

Market Information, Holders, and Dividends

The Summary section to this proxy statement/prospectus contains information regarding the high and low sales prices and cash dividends declared with respect to First Charter s common stock. For information regarding First Charter s ability to pay dividends, see Management s Discussion and Analysis of Financial Condition and Results of Operations Capital Management and Note 22 of the Consolidated Financial Statements of First Charter for the year ended December 31, 2006 included with this proxy statement/prospectus.

As of November 26, 2007, there were approximately 6,930 record holders of First Charter common stock. During 2007, 2006, and 2005, First Charter paid dividends on its common stock on a quarterly basis.

Supplementary Financial Information

See Management s Discussion and Analysis of Financial Condition and Results of Operations *Tables Eight* and *Twenty-Two*.

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 First Charter 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 contained in this proxy statement/prospectus, which

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reflect management s judgment only as of the date hereof. First Charter 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 First Charter s control, include, among others, the following possibilities: (i) projected results in connection with management s implementation of, or changes in, First Charter s business plan and strategic initiatives, including the balance sheet initiatives; (ii) competitive pressure among financial services companies increases significantly; (iii) costs or difficulties related to the integration of acquisitions, including deposit attrition, customer retention and revenue loss, or expenses in general are greater than expected; (iv) general economic conditions, in the markets in which First Charter does business, are less favorable than expected; (v) risks inherent in making loans, including repayment risks and risks associated with collateral values, are greater than expected, including the Penland loans described herein; (vi) changes in the interest rate environment, or interest rate policies of the Board of Governors of the Federal Reserve System, may reduce interest margins and affect funding sources; (vii) changes in market rates and prices may adversely affect the value of financial products; (viii) legislation or regulatory requirements or changes thereto, including changes in accounting standards, may adversely affect the businesses in which First Charter is engaged; (ix) regulatory compliance cost increases are greater than expected; (x) the passage of future tax legislation, or any negative regulatory, administrative or judicial position, may adversely affect First Charter; (xi) First Charter s competitors may have greater financial resources and may develop products that enable them to compete more successfully in the markets in which First Charter operates; (xii) changes in the securities markets, including changes in interest rates, may adversely affect First Charter s ability to raise capital from time to time; (xiii) the material weaknesses in First Charter s internal control over financial reporting result in subsequent adjustments to management s projected results; (xiv) implementation of management s plans to remediate the material weaknesses takes longer than expected and causes First Charter to incur costs that are greater than expected; and (xv) costs and difficulties related to the consummation of the proposed merger with Fifth Third may be greater than expected and the consummation remains subject to the satisfaction of various required conditions that may be delayed or may not be satisfied at all.

Overview

First Charter, headquartered in Charlotte, North Carolina, is a regional financial services company with assets of $4.8 billion and is the holding company for First Charter Bank (First Charter Bank). First Charter operates 60 financial centers, four insurance offices, and 137 ATMs in North Carolina and Georgia, and also operates loan origination offices in Asheville, North Carolina and Reston, Virginia. First Charter provides businesses and individuals with a broad range of financial services, including banking, financial planning, wealth management, investments, insurance, and mortgages.

First Charter s principal source of earnings is derived from net interest income. Net interest income is the interest earned on securities, loans, and other interest-earning assets less the interest paid for deposits and short-and long-term debt.

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

Noninterest expense is the primary component of expense for First Charter. Noninterest expense is primarily composed of corporate operating expenses, including salaries and benefits, occupancy and equipment, professional fees, and other operating expenses. Income taxes are also considered a material expense.

The Community-Banking Model

First Charter Bank operates a community-banking model. The community-banking model is focused on delivering a broad array of financial products and solutions to our clients with exceptional service and convenience at a fair price. It emphasizes local market decision-making and management whenever possible.

Management believes this model works well against larger competitors that may have less flexibility and are challenged to provide exceptional customer service, as well as local competition that may not have the array of products and services nor the number of convenient locations that First Charter Bank offers. First Charter Bank competes against four of the largest banks in the country, as well as other local banks, savings and loan associations, credit unions, and finance companies.

Existing Markets and Expansion

During 2005, First Charter implemented a growth strategy intended to both expand the First Charter footprint into high growth markets and to optimize existing locations through attracting new customers and retaining existing customers. As part of the strategic growth strategy, First Charter has expanded operations into the Raleigh, North Carolina, Metro area. The Raleigh Metro area is expected to have at or above average household income and growth rates relative to the North Carolina and national averages. First Charter opened a loan production office in Raleigh in early 2005, which was later consolidated into First Charter s first financial center in Raleigh in October 2005. First Charter also added three new financial centers in the Raleigh market in February 2006 by opening new financial centers in Raleigh, Cary, and Garner, North Carolina. A fifth financial center opened in Raleigh in late January 2007. These financial centers offer businesses and individuals a broad range of financial services, including banking, financial planning, wealth management, investments, insurance, and mortgages. First Charter also operates 22 ATMs in the Raleigh market.

During 2006, First Charter also opened two new replacement financial centers in Lincolnton and Denver, North Carolina, providing an even greater level of service and convenience for customers in those markets.

On November 1, 2006, First Charter entered the greater Atlanta, Georgia metropolitan market with the acquisition of GBC Bancorp, Inc. (GBC) and its banking subsidiary, Gwinnett Bank, with financial centers located in Lawrenceville and Alpharetta, Georgia. By expanding into the greater Atlanta metropolitan market through this acquisition, First Charter has been able to spread its credit risk over multiple market areas and states, as well as gain access to another large market area as a source for core deposits. The counties in which Gwinnett Bank operates boast some of the strongest demographic growth trends in the nation, and the median household income in these counties is significantly higher than the median income for Georgia and the Southeast. Effective March 1, 2007, Gwinnett Bank was merged with and into First Charter Bank.

Recent Challenges

During the fourth quarter of 2006, First Charter closed two significant transactions, the acquisition of GBC and the sale of Southeastern Employee Benefits Services (SEBS), its employee benefits administration business. In addition, First Charter was faced with several new accounting standards. The numerous challenges that these events posed for First Charter were compounded by a key vacancy in the leadership of its accounting area and turnover within other key finance positions, and exposed certain material weaknesses in First Charter s internal control over financial reporting. Management has begun to implement its remediation plan to address these material weaknesses.

During the months following the fiscal year end, First Charter was engaged in a detailed assessment of its internal controls and focused considerable time and resources on the adoption and implementation of various accounting pronouncements and the analysis of their impact on its financial results. In addition, the Audit Committee of the Board of Directors commenced and concluded an inquiry regarding certain accounting policies and estimates, principally related to First Charter s acquisition of GBC, compensation matters, and related controls and procedures. As previously disclosed, none of the findings of the Audit Committee inquiry were financially material, and did not result in First Charter restating any of its historical financial statements. However, these events caused a significant delay in the completion of First Charter s 2006 financial statements, their audit by First Charter s outside auditors and, in turn,

the filing of the Form 10-K for the year ended December 31, 2006.

During the second quarter of 2007, the North Carolina Attorney General obtained a court order to appoint a receiver to take control of a real estate venture in the Village of Penland and related development projects located in Western North Carolina (Penland). The Attorney General s complaint alleges that various

defendants, including real estate development companies, individuals, and an appraiser engaged in deceptive practices to induce consumers to obtain loans to purchase lots in Penland in the Spruce Pine, North Carolina area. These lots were allegedly priced based upon inflated appraisals. Several financial institutions, including First Charter, made loans in connection with these residential developments.

As of September 30, 2007, First Charter had an aggregate outstanding balance of $8.9 million to individual lot purchasers related to Penland, net of $5.2 million charged off during the third quarter of 2007. Based on management s assessment of probable incurred losses associated with the Penland loan portfolio, First Charter recorded an allowance for loan losses of $4.0 million as of September 30, 2007. Additionally, based on management s assessment of the individual borrowers, $4.5 million of the Penland loans were placed on nonaccrual status as of September 30, 2007 and all of the previously recognized interest income related to these nonaccrual loans was reversed. In the fourth quarter of 2007, First Charter received appraisals on four lots in the Penland development which indicated a deterioration in the collateral value associated with the Penland loan portfolio. In future periods there may be further deterioration in the Penland loan portfolio which could result in additional charge-offs.

On July 31, 2007, the General Assembly of North Carolina passed House Bill 1473 which includes a provision that disallows the deduction of dividends paid by captive real estate investment trusts (REITs) for the purposes of determining North Carolina taxable income. First Charter, through its subsidiaries, participates in two entities classified as captive REITs from which First Charter has historically received dividends which resulted in certain tax benefits taken within First Charter s tax returns and consolidated financial statements. This legislation is effective for taxable years beginning on or after January 1, 2007.

As a result of this legislation, during the third quarter of 2007, First Charter recorded $1.0 million, net of reserve, of additional income tax expense as it eliminated the dividend received deduction previously recorded during 2007. This increased First Charter s effective tax rate for 2007, and it is expected to increase the effective tax rate for future periods. Additionally, tax expense was reduced by $0.4 million as a result of the expiration of the relevant Federal statute of limitations. The net impact of these two events was a $0.6 million increase to income tax expense for the three and nine months ended September 30, 2007.

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Management s Discussion and Analysis For The Year Ended December 31, 2006 Compared To The Year Ended December 31, 2005

Financial Summary

Net income was $47.4 million, or $1.49 per diluted share, for 2006, a $22.1 million increase from net income of $25.3 million, or $0.82 per diluted share, for 2005. Return on average assets and return on average equity was 1.08 percent and 13.5 percent for 2006, respectively, compared to 0.56 percent and 7.9 percent for 2005, respectively. During 2006 and 2005, several material transactions occurred, which impacted noninterest income and expense. In 2006, these transactions included the sale of First Charter s employee benefits administration business, the sale of two financial centers, distributions received from First Charter s equity method investments, the further repositioning of First Charter s securities portfolio, the restructuring of First Charter s BOLI investment, the acceleration of vesting on all stock options granted from 2003 to 2005, the separation expense for certain employees, and the merger costs associated with the acquisition of GBC. During 2005, these transactions included the initial repositioning of First Charter s securities portfolio, early termination of derivatives and their associated hedged debt instruments, early extinguishment of debt, the expense associated with the retirement of a key executive, and the modification of a legacy employee benefit plan.

Earnings Analysis For The Fourth Quarter 2006 Compared To The Fourth Quarter 2005

For the fourth quarter of 2006, net income was $12.0 million, or $0.36 per diluted share, compared to a net loss of $8.3 million, or $0.27 per diluted share, for the 2005 fourth quarter. The fourth quarter of 2006 was adversely affected by several items, including $0.7 million in expense incurred from the accelerated vesting of equity options, $0.3 million in merger-related expense, $0.2 million in employee separation expense. The $1.0 million gain recognized on the sale of SEBS was principally offset by the income tax expense on the gain. During the fourth quarter of 2005, First Charter repositioned and de-leveraged its balance sheet by selling securities and extinguishing debt in an on-going effort to improve First Charter s earnings quality and stability. As a result of executing these initiatives, First Charter realized an approximate $31.3 million pre-tax ($20.0 million after-tax) charge in the fourth quarter of 2005.

On December 1, 2006, First Charter completed the sale of SEBS to an independent third party for $3.1 million in cash. The transaction resulted in a pre-tax gain of $962,000. Because the goodwill and certain of the intangible assets were nondeductible for tax purposes, the applicable income tax expense associated with the gain was $951,000. In connection with this sale, First Charter and the purchaser entered into a three-year agreement under which First Charter will continue to use the purchaser as the strategic record-keeping partner for its wealth management clients and the administration of certain of First Charter s employee benefits plans. Financial results for SEBS, the sole component of First Charter s Employee Benefits Administration Business, including the gain, are reported as *Discontinued Operations* for all periods presented.

The net interest margin (taxable-equivalent net interest income divided by average earning assets) increased 13 basis points to 3.40 percent in the fourth quarter of 2006 from 3.27 percent in the fourth quarter of 2005. The margin improvement benefited, in part, from the addition of GBC s higher-margin balance sheet and the continued benefits from previously disclosed balance sheet repositionings in the fourth quarter of 2005 and the third quarter of 2006. Net interest income increased to $36.0 million, representing a $4.1 million, or 12.8 percent, increase over the fourth quarter of 2005.

Compared to the fourth quarter of 2005, earning-asset yields increased 103 basis points to 6.96 percent. This increase was driven by two factors. First, loan yields increased 99 basis points to 7.56 percent and securities yields increased 68 basis points to 4.84 percent. Second, the mix of higher-yielding (loan) assets improved as a result of the GBC

acquisition, the balance sheet repositionings, and a smaller percentage of lower-yielding mortgage loans. The percentage of investment security average balances (which, on average, have lower yields than loans) to total earning-asset average balances was reduced from 25.9 percent to 21.6 percent over the prior year.

On the liability side of the balance sheet, the cost of interest-bearing liabilities increased 104 basis points during the fourth quarter of 2006, compared to the fourth quarter of 2005. This was comprised of a 106 basis

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point increase in interest-bearing deposit costs to 3.73 percent, while other borrowing costs increased 112 basis points to 4.90 percent. During this period, the Federal Reserve raised the rate that banks can lend funds to each other (the Fed Funds rate) by 100 basis points. Also, as a result of the balance sheet repositionings, the percentage of higher-cost other borrowings average balances was reduced from 31.3 percent to 28.1 percent of total interest-bearing liabilities average balances over the prior year.

The provision for loan losses was $1.5 million for the fourth quarter of 2006, compared to $1.8 million for the fourth quarter of 2005, reflecting improved credit quality trends, including lower net charge-offs. Net charge-offs were $650,000 for the fourth quarter of 2006, or 0.08% of average portfolio loans, compared to $2.9 million for the fourth quarter of 2005, or 0.39% of average portfolio loans.

Historical noninterest income amounts have been restated to reflect the effect of reporting the previously announced sale of SEBS as a discontinued operation. Noninterest income from continuing operations totaled $17.4 million, compared to a loss of $0.7 million for the fourth quarter of 2005. Driving the noninterest loss for the 2005 fourth quarter were securities losses of $16.7 million from the balance sheet repositioning, versus no gains or losses recognized in the 2006 fourth quarter. Excluding these securities losses, noninterest income increased $1.4 million, or 8.7 percent, to $17.4 million. Of this increase, $0.3 million was attributable to the GBC acquisition, which closed on November 1, 2006. Deposit service charges, ATM, debit card, and merchant fees, and mortgage, brokerage, insurance, and wealth management revenue were all contributors to growth in First Charter s noninterest income. Partially offsetting the growth in these key areas were $0.5 million less in gains from property sales in the 2006 fourth quarter, compared to the 2005 fourth quarter.

Historical noninterest expense amounts have been restated to reflect the effect of reporting the sale of SEBS as a discontinued operation. On a year-over-year basis, total noninterest expense from continuing operations for the 2006 fourth quarter decreased $9.4 million to $33.9 million, compared to $43.2 million for the fourth quarter of 2005. The 2005 fourth quarter included approximately $14.7 million of expense related to the previously discussed balance sheet repositioning. Raleigh-related expense totaled $1.3 million during the 2006 fourth quarter, compared to $0.7 million in the fourth quarter of 2005. Salaries and employee benefits expense increased $3.9 million, compared to the fourth quarter of 2005, principally attributable to general overall compensation increases, including $1.1 million in GBC personnel-related expenses, $0.6 million from Raleigh personnel expense and investment, and an additional $1.1 million from equity-based compensation, including option acceleration expense, and $0.2 million in severance expense. Occupancy and equipment expense for the 2006 fourth quarter increased $1.1 million and included incremental expense from a new loan platform being placed in service during the quarter and $0.2 million of incremental Raleigh-related costs during the quarter, whereas occupancy and equipment expense for the 2005 fourth quarter included a $1.4 million reduction of expense due to a correction related to First Charter s fixed asset records. Marketing expense declined $0.5 million, compared to the year-ago quarter. Foreclosed properties expense increased by $0.2 million, and amortization of intangible assets also increased by $0.2 million due to core deposit intangible amortization from the GBC acquisition.

The effective tax rate for the fourth quarter of 2006 was 36.3 percent, compared with 40.0 percent in the fourth quarter of 2005. The 2005 fourth quarter was significantly affected by charges incurred for the previously mentioned balance sheet repositioning, while the 2006 fourth quarter was adversely affected by the tax gain recognized from the sale of SEBS and additional revenue related to the GBC acquisition. The effective tax rate for both quarters includes the effects of both continuing and discontinued operations.

Table One
Selected Financial Data

	For the Calendar Year				
	2006	**2005**	**2004**	**2003**	**2002**
	(Dollars in thousands, except per share amounts)				
Income statement					
Interest income	**$ 264,929**	$ 224,605	$ 187,303	$ 178,292	$ 196,388
Interest expense	**131,219**	99,722	64,293	70,490	83,227
Net interest income	**133,710**	124,883	123,010	107,802	113,161
Provision for loan losses	**5,290**	9,343	8,425	27,518	8,270
Noninterest income	**67,678**	46,738	57,038	62,282	47,410
Noninterest expense	**124,937**	127,971	107,496	125,065	97,551
Income from continuing operations before income tax expense	**71,161**	34,307	64,127	17,501	54,750
Income tax expense	**23,799**	9,132	21,889	3,313	14,947
Income from continuing operations, net of tax	**47,362**	25,175	42,238	14,188	39,803
Discontinued operations					
Income (loss) from discontinued operations	**36**	224	337	(69)	
Gain on sale	**962**				
Income tax expense (benefit)	**965**	88	133	(27)	
Income (loss) from discontinued operations, net of tax	**33**	136	204	(42)	
Net income	**$ 47,395**	$ 25,311	$ 42,442	$ 14,146	$ 39,803
Per common share					
Basic earnings per share					
Income from continuing operations	**$ 1.50**	$ 0.83	$ 1.41	$ 0.48	$ 1.30
Income from discontinued operations, net of tax			0.01		
Net income	**1.50**	0.83	1.42	0.47	1.30
Diluted earnings per share					

Income from continuing operations	**1.49**	0.82	1.40	0.47	1.30
Income from discontinued operations, net of tax			0.01		
Net income	**1.49**	0.82	1.40	0.47	1.30
Average shares					
Basic	**31,525,366**	30,457,573	29,859,683	29,789,969	30,520,125
Diluted	**31,838,292**	30,784,406	30,277,063	30,007,435	30,702,107
Cash dividends declared	**0.775**	0.76	0.75	0.74	0.73
Period-end book value	**12.81**	10.53	10.47	10.08	10.80
Ratios					
Return on average equity	**13.45%**	7.86%	14.05%	4.50%	12.52%
Return on average assets	**1.08**	0.56	0.98	0.35	1.13
Net yield on earning assets	**3.37**	3.05	3.14	3.00	3.52
Average portfolio loans to average deposits	**105.72**	101.75	92.48	85.56	93.85
Average equity to average assets	**8.06**	7.18	6.99	7.85	9.02
Efficiency ratio(1)	**59.6**	59.4	59.8	65.4	64.3
Dividend payout	**52.0**	92.7	53.6	157.4	56.2
Selected period-end balances					
Portfolio loans, net	**$ 3,450,087**	$ 2,917,020	$ 2,412,529	$ 2,227,030	$ 2,045,266
Loans held for sale	**12,292**	6,447	5,326	5,137	158,404
Allowance for loan losses	**34,966**	28,725	26,872	25,607	27,204
Securities available for sale	**906,415**	899,111	1,652,732	1,601,900	1,129,212
Assets	**4,856,717**	4,232,420	4,431,605	4,206,693	3,745,949
Deposits	**3,248,128**	2,799,479	2,609,846	2,427,897	2,322,647
Other borrowings	**1,098,698**	1,068,574	763,738	473,106	1,042,440
Total liabilities	**4,409,355**	3,908,825	4,116,918	3,907,254	3,421,263
Shareholders equity	**447,362**	323,595	314,687	299,439	324,686
Selected average balances					
Portfolio loans	**$ 3,092,801**	$ 2,788,755	$ 2,353,605	$ 2,126,821	$ 2,112,855
Loans held for sale	**9,019**	6,956	9,502	25,927	10,035
Securities available for sale, at cost	**920,961**	1,361,507	1,623,102	1,464,704	1,126,494
Earning assets	**4,033,031**	4,164,969	4,004,678	3,662,460	3,261,842
Assets	**4,369,834**	4,489,083	4,322,727	4,009,511	3,525,090
Deposits	**2,925,506**	2,740,742	2,544,864	2,485,711	2,251,256
Other borrowings	**1,049,165**	1,375,910	1,428,124	1,159,889	906,263
Shareholders equity	**352,253**	322,226	302,101	314,562	317,952

(1) 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, net. Excludes the results of discontinued operations.

Critical Accounting Estimates and Policies

First Charter s significant accounting policies are described in Note 1 of the consolidated financial statements for the year ended December 31, 2006, included with this proxy statement/prospectus, and are essential in understanding management s discussion and analysis of financial condition and results of operations. Some of First Charter s accounting policies require significant judgment to estimate values of either assets or liabilities. In addition, certain accounting principles require significant judgment in applying the complex accounting principles to complicated transactions to determine the most appropriate treatment.

The following is a summary of the more judgmental estimates and complex accounting principles. 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, First Charter has used the factors that it believes represent the most reasonable value in developing the inputs for the valuation. Actual performance that differs from First Charter s estimates of the key variables could impact net income.

Allowance for Loan Losses

First Charter considers its policy regarding the allowance for loan losses to be one of its most critical accounting policies, as it requires some of management s most subjective and complex judgments. The allowance for loan losses is maintained at a level First Charter believes is adequate to absorb probable losses inherent in the loan portfolio as of the date of the consolidated financial statements. First Charter developed appropriate policies and procedures for assessing the adequacy of the allowance for loan losses that reflect its evaluation of credit risk considering all information available to it.

The determination of the level of the allowance and, correspondingly, the provision for loan losses, rests upon various judgments and assumptions, including: (i) general economic conditions, (ii) loan portfolio composition, (iii) prior loan loss experience, (iv) management s evaluation of credit risk related to both individual borrowers and pools of loans and (v) observations derived from First Charter s ongoing internal credit review and examination processes and those of its regulators. Depending on changes in circumstances, future assessments of credit risk may yield materially different results, which may require an increase or decrease in the allowance for loan losses.

First Charter employs a variety of statistical modeling and estimation tools in developing the appropriate allowance. The following provides a description of each of the components involved in the allowance for loan losses, the techniques First Charter uses, and the estimates and judgments inherent to each component.

The first component of the allowance for loan losses, the valuation allowance for impaired loans, is computed based on documented reviews performed by First Charter s Credit Risk Management for impaired commercial relationships greater than $150,000. Credit Risk Management typically estimates these valuation allowances by considering the fair value of the underlying collateral for each impaired loan using current appraisals. The results of these estimates are updated quarterly or periodically as circumstances change. Changes in the dollar amount of impaired loans or in the estimates of the fair value of the underlying collateral can impact the valuation allowance on impaired loans and, therefore, the overall allowance for loan losses.

The second component of the allowance for loan losses, the portion attributable to all other loans without specific reserve amounts, is determined by applying reserve factors to the outstanding balance of loans. The portfolio is segmented into two major categories: commercial loans and consumer loans. Commercial loans are segmented further by risk grade, so that separate reserve factors are applied to each pool of commercial loans. The reserve factors applied to the commercial segments are determined using a migration analysis that computes current loss estimates by credit grade using a 60-month trailing loss history. Since the migration analysis is based on trailing data, the reserve

factors may change based on actual losses and other judgmentally determined factors. Changes in commercial loan credit grades can also impact this component of the allowance for loan losses from period to period. Consumer loans which include mortgage, general consumer, consumer real estate, home equity and consumer unsecured loans are segmented by loan type and by collateral grouping in order to apply separate reserve factors to each pool of consumer loans. The reserve factors applied to the consumer segments are a 36-month rolling average of losses. Since the reserve factors are based on historical data, the percentage loss estimates can change based on actual losses.

The third component of the allowance for loan losses is intended to capture the various risk elements of the loan portfolio which may not be sufficiently captured in the historical loss rates. These factors currently include intrinsic risk, operational risk, concentration risk and model risk. Intrinsic risk relates to the impact of current economic conditions on First Charter s borrower base, the effects of which may not be realized by First Charter in the form of charge-offs for several periods. First Charter monitors and documents various local, regional and national economic data, and makes subjective estimates of the impact of changes in economic conditions on the allowance for loan losses. Operational risk includes factors such as the likelihood of loss on a loan due to procedural error. Historically, First Charter has made additional loss estimates for certain types of loans that were either acquired from other institutions in mergers or were underwritten using policies that are no longer in effect at First Charter. These identified loans are considered to have higher risk of loss than currently reflected in historical loss rates of First Charter, so additional estimates of loss are made by management. Concentration risk includes the risk of loss due to extensions of credit to a particular industry, loan type or borrower that may be troubled. Model risk reflects the inherent uncertainty of estimates within the allowance for loan losses model. First Charter monitors its portfolio for any excessive concentrations of loans during each period, and if any excessive concentrations are noted, additional estimates of loss are made. Changes in the allowance for loan losses for these subjective factors can arise from changes in the balance and types of outstanding loans, as well as changes in the underlying conditions which drive a change in the percentage used. As more fully discussed below, First Charter continually monitors the portfolio in an effort to identify any other factors which may have an impact on loss estimates within the portfolio.

All estimates of the loan portfolio risk, including the adequacy of the allowance for loan losses, are subject to general and local economic conditions, among other factors, which are unpredictable and beyond First Charter s control. Since a significant portion of the loan portfolio is comprised of real estate loans and loans to area businesses, First Charter is subject to continued risk that the real estate market and economic conditions in general could change and therefore result in additional losses and require increases in the provision for loan losses. If management had made different assumptions about probable loan losses, First Charter s financial position and results of operations could have differed materially. For additional discussion concerning First Charter s allowance for loan losses and related matters, see Allowance for Loan Losses.

Income Taxes

Calculating First Charter s income tax expense requires significant judgment and the use of estimates. First Charter periodically assesses its tax positions based on current tax developments, including enacted statutory, judicial and regulatory guidance. In analyzing First Charter s overall tax position, consideration is given to the amount and timing of recognizing income tax liabilities and benefits. In applying the tax and accounting guidance to the facts and circumstances, income tax balances are adjusted appropriately through the income tax provision. Reserves for income tax uncertainties are maintained at levels First Charter believes are adequate to absorb probable payments. Actual amounts paid, if any, could differ significantly from these estimates.

Identified Intangible Assets and Goodwill

First Charter records all assets and liabilities acquired in purchase acquisitions, including goodwill, indefinite-lived intangibles, and other intangibles, at fair value as required by SFAS 141, *Business Combinations.* The initial recording of goodwill and other intangibles requires subjective judgments concerning estimates of the fair value of the acquired assets and liabilities. First Charter is in the process of finalizing valuations of certain assets and liabilities, including intangible assets, for the November 1, 2006, acquisition of GBC. Consequently, the allocation of the purchase price and the resulting goodwill are subject to refinement after the reported balance sheet date. Goodwill and indefinite-lived intangible assets are not amortized but are subject to annual tests for impairment or more often if events or circumstances indicate they may be impaired. Other identified intangible assets are amortized over their

estimated useful lives and are subject to impairment if events or circumstances indicate a possible inability to realize the carrying amount.

The ongoing value of goodwill is ultimately supported by revenue from First Charter s businesses and its ability to deliver cost-effective services over future periods. Any decline in revenue resulting from a lack of growth or the inability to effectively provide services could potentially create an impairment of goodwill.

Earnings Performance For The Year Ended December 31, 2006 Compared To The Year Ended December 31, 2005

First Charter s net income was $47.4 million for 2006, compared to $25.3 million for 2005. Earnings were $1.49 per diluted share, an increase of 67 cents per diluted share from $0.82 a year ago. Total revenue increased 17.3 percent to $201.4 million, compared to $171.6 million a year ago. The increase in revenue was primarily driven by two factors. First, noninterest income from continuing operations, excluding securities losses in both 2006 and 2005, increased $10.1 million, or 15.9 percent, due to higher deposit service charges, ATM, debit card, and merchant fees, and insurance and mortgage revenue combined with the recognition in 2006 of $4.0 million of gains on equity method investments and a $2.8 million gain on the sale of loans and deposits. Second, net interest income increased $8.8 million to $133.7 million as the net interest margin expanded 32 basis points to 3.37 percent. The improvement in net interest income and the margin was largely attributable to First Charter s previously discussed balance sheet repositioning initiatives undertaken in the fourth quarter of 2005 and the third quarter of 2006, along with the addition of GBC s higher-margin balance sheet in the fourth quarter of 2006. Noninterest expense from continuing operations, excluding debt extinguishment and derivative termination costs in 2005, increased $11.6 million to $124.9 million, largely due to higher salaries and benefits and increased occupancy and equipment expense. Contributing to both of these expense categories were incremental costs associated with the GBC acquisition, costs of First Charter s Raleigh investment, and stock-based compensation, including the accelerated vesting of options. Loan growth was strong, as average balances increased $306.1 million, or 10.9 percent, compared to 2005. The majority of the increase is attributable to strong growth in the Raleigh and Charlotte markets. Additionally, $56.5 million of this growth was attributable to the GBC acquisition. Average deposits for 2006 increased $184.8 million, or 6.7 percent, compared to 2005. Of the growth, $59.3 million was related to the GBC acquisition. Credit quality continues to be solid, with net charge-offs of 0.11 percent of average portfolio loans in 2006, compared to 0.27 percent in 2005. At December 31, 2006, Raleigh-related loans and deposits totaled $133.8 million and $31.8 million, respectively.

Net Interest Income and Margin

Net interest income, the difference between total interest income and total interest expense, is First Charter s principal source of earnings. An analysis of First Charter s net interest income on a taxable-equivalent basis and average balance sheets for the last three years is presented in *Table Two.* Net interest income on a taxable-equivalent basis (FTE) is a non-GAAP (Generally Accepted Accounting Principles) performance measure used by management in operating the business which management believes provides investors with a more accurate picture of the interest margin for comparative purposes. The changes in net interest income (on a taxable-equivalent basis) from year to year are analyzed in *Table Three.* The discussion below is based on net interest income computed under accounting principles generally accepted in the United States of America.

For 2006, net interest income was $133.7 million, an increase of $8.8 million, or 7.1 percent, from net interest income of $124.9 million in 2005. The net interest margin expanded 32 basis points to 3.37 percent in 2006 from 3.05 percent in 2005. The margin improvement benefited, in part, from the addition of GBC s higher-margin balance sheet and the continued benefits from the previously disclosed balance sheet repositionings in the fourth quarter of 2005 and the third quarter of 2006, partially offset by a somewhat more competitive deposit pricing environment and home equity loan attrition as a result of customers refinancing adjustable-rate home equity loans into fixed-rate first mortgage loans. Since the 2005 balance sheet repositioning occurred in late October, the benefit to the net interest margin for 2005 was minimal.

Compared to 2005, earning-asset yields increased 118 basis points to 6.63 percent. This increase was driven by two factors. First, loan yields increased 107 basis points to 7.26 percent and securities yields increased 57 basis points to 4.52 percent. Second, the mix of higher-yielding (loan) assets improved as a result

of the GBC acquisition, the balance sheet repositionings, and a smaller percentage of lower-yielding mortgage loans. The percentage of investment security average balances (which, on average, have lower yields than loans) to total earning-asset average balances was reduced from 32.7 percent to 22.8 percent over the past year.

Earning-asset average balances decreased $131.9 million to $4.0 billion at December 31, 2006, compared to nearly $4.2 billion for 2005. The decrease was due to a decline of $440.5 million average securities balance, resulting from the sale and maturity of securities in First Charter s portfolio, consistent with First Charter s balance sheet repositioning. This decline was partially offset by growth in First Charter s average loan balances, which increased $306.1 million, compared to 2005. Loan balances increased principally due to strong growth in the Charlotte and Raleigh markets and to a lesser extent, due to the purchase of GBC during the fourth quarter of 2006, which contributed $56.5 million to average loans and loans held for sale.

On the liability side of the balance sheet, the cost of interest-bearing liabilities increased 102 basis points, compared to 2005. This increase was comprised of a 103 basis point increase in interest-bearing deposit costs to 3.31 percent, while other borrowing costs increased 129 basis points to 4.65 percent. During the past year, the Federal Reserve raised the rate that banks can lend funds to each other (the Fed Funds rate) by 100 basis points. Also, as a result of the balance sheet repositionings, the percentage of higher-cost other borrowings average balances was reduced from 37.0 percent to 29.6 percent of interest-bearing liabilities average balances over the past year.

First Charter 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 limits set by Management and the Board of Directors. As previously discussed, First Charter repositioned its balance sheet in the fourth quarter of 2005 and the third quarter of 2006. First Charter expects these repositionings of the balance sheet to continue to improve net interest income and the net interest margin and reduce interest rate risk.

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Net interest income and yields on earning-asset average balances and interest expense and rates paid on interest-bearing liability average balances, and the net interest margin follow:

Table Two
Average Balances and Net Interest Income Analysis

	For the Calendar Year							
		2006			**2005**			**2004**
	Daily Average Balance	**Interest Income/ Expense**	**Average Yield/Rate Paid**	**Daily Average Balance**	**Interest Income/ Expense**	**Average Yield/Rate Paid**	**Daily Average Balance**	**Interest Income/ Expense**
	(Dollars in thousands)							
sets								
loans held for 3)(4)	**$ 3,101,820**	**$ 225,195**	**7.26%**	$ 2,795,711	$ 172,961	6.19%	$ 2,363,107	$ 124,496
taxable(4)	**819,791**	**35,613**	**4.34**	1,251,477	47,657	3.81	1,538,133	59,520
tax-exempt	**101,170**	**6,012**	**5.94**	110,030	6,100	5.54	84,969	5,224
ds sold	**5,369**	**267**	**4.97**	1,883	60	3.19	1,566	19
aring bank	**4,881**	**204**	**4.18**	5,868	163	2.78	16,903	200
ng assets	**4,033,031**	**$ 267,291**	**6.63%**	4,164,969	$ 226,941	5.45%	4,004,678	$ 189,459
ue from banks	**81,497**			94,971			89,103	
s	**255,306**			229,143			228,946	
s	**$ 4,369,834**			$ 4,489,083			$ 4,322,727	
and shareholders								
aring liabilities								
posits	**$ 370,458**	**$ 2,949**	**0.80%**	$ 343,663	$ 1,111	0.32%	$ 326,365	$ 666
ket accounts	**589,887**	**18,718**	**3.17**	496,982	9,220	1.86	522,232	5,977
posits	**117,862**	**259**	**0.22**	123,305	277	0.22	122,339	321
ficates of deposit	**993,631**	**41,066**	**4.13**	968,752	29,358	3.03	904,907	22,038
ertificates of	**421,108**	**19,456**	**4.62**	409,882	13,490	3.29	306,983	6,348
r borrowings	**113,126**	**2,877**	**2.54**	115,308	1,812	1.57	122,911	1,137
other borrowings	**936,039**	**45,894**	**4.90**	1,260,602	44,454	3.53	1,305,213	27,806
est-bearing	**3,542,111**	**131,219**	**3.70%**	3,718,494	99,722	2.68%	3,610,950	64,293
t-bearing deposits	**432,560**			398,158			362,038	
ities	**42,910**			50,205			47,638	
rs equity	**352,253**			322,226			302,101	
	$ 4,369,834			$ 4,489,083			$ 4,322,727	

lities and ers equity						
t spread		**2.93%**		2.77%		
on of noninterest rces		**0.44**		0.28		
st income/ rning assets	**$ 136,072**	**3.37%**	$ 127,219	3.05%	$ 125,166	

(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 $3,104, $2,343, and $2,616 for 2006, 2005, and 2004, respectively.

(4) Yields on tax-exempt securities and loans are stated on a taxable-equivalent basis, assuming a Federal tax rate of 35 percent and applicable state taxes for 2006, 2005, and 2004. The adjustments made to convert to a taxable-equivalent basis were $2,362, $2,336 and $2,156 for 2006, 2005, and 2004, respectively.

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The following table shows changes in tax-equivalent interest income, interest expense, and tax-equivalent net interest income arising from volume and rate changes for major categories of earning assets and interest-bearing liabilities. The change in interest not solely due to changes in volume or rate has been allocated in proportion to the absolute dollar amounts of the change in each.

Table Three
Volume and Rate Variance Analysis

	2006 vs 2005			2005 vs 2004		
	Due to Change in		Net	Due to Change in		Net
	Volume	Rate	Change	Volume	Rate	Change
	(In thousands)					
Increase (decrease) in tax-equivalent interest income						
Loans and loans held for sale(1)	**$ 20,209**	**$ 32,025**	**$ 52,234**	$ 24,826	$ 23,639	$ 48,465
Securities taxable(1)	**(18,082)**	**6,038**	**(12,044)**	(10,930)	(933)	(11,863)
Securities tax-exempt	**(510)**	**422**	**(88)**	1,427	(551)	876
Federal funds sold	**159**	**48**	**207**	5	36	41
Interest-bearing bank deposits	**(31)**	**72**	**41**	(188)	151	(37)
Total	**$ 1,745**	**$ 38,605**	**$ 40,350**	$ 15,140	$ 22,342	$ 37,482
Increase (decrease) in interest expense						
Deposits:						
Demand	**$ 93**	**$ 1,745**	**$ 1,838**	$ 37	$ 408	$ 445
Money market	**1,979**	**7,519**	**9,498**	(302)	3,545	3,243
Savings	**(12)**	**(6)**	**(18)**	3	(47)	(44)
Retail certificates of deposit	**772**	**10,936**	**11,708**	1,640	5,680	7,320
Brokered certificates of deposit	**379**	**5,587**	**5,966**	2,583	4,559	7,142
Retail other borrowings	**(35)**	**1,100**	**1,065**	(74)	749	675
Wholesale other borrowings	**(13,221)**	**14,661**	**1,440**	(981)	17,629	16,648
Total	**$ (10,045)**	**$ 41,542**	**$ 31,497**	$ 2,906	$ 32,523	$ 35,429
Increase in tax-equivalent net interest income			**$ 8,853**			$ 2,053

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

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Noninterest Income

Details of noninterest income follow:

Table Four
Noninterest Income

	For the Calendar Year		
	2006	2005	2004
		(In thousands)	
Service charges on deposits	**$ 28,962**	$ 27,809	$ 25,564
Wealth management	**2,847**	2,410	1,997
Gain on sale of deposits and loans	**2,825**		
Equity method investment gains (losses), net	**3,983**	(271)	(349)
Mortgage services	**3,062**	2,873	1,748
Gain on sale of small business administration loans	**126**		
Brokerage services	**3,182**	3,119	3,112
Insurance services	**13,366**	12,546	11,514
Bank owned life insurance	**3,522**	4,311	3,413
Property sale gains, net	**645**	1,853	777
ATM, debit, and merchant fees	**8,395**	6,702	5,160
Other	**2,591**	2,076	1,719
Total fees and other income from continuing operations	**73,506**	63,428	54,655
Securities gains (losses), net	**(5,828)**	(16,690)	2,383
Noninterest income from continuing operations	**67,678**	46,738	57,038
Noninterest income from discontinued operations	**3,012**	3,475	3,858
Gain on sale from discontinued operations	**962**		
Total noninterest income	**$ 71,652**	$ 50,213	$ 60,896

Historical noninterest income amounts have been restated to reflect the effect of reporting the previously announced sale of SEBS as a discontinued operation. For 2006, noninterest income from continuing operations was $67.7 million, a $21.0 million increase, compared to $46.7 million for 2005. A reduction in net securities losses incurred in the balance sheet repositionings contributed $10.9 million toward the increase. Additionally, equity method investment gains contributed $4.3 million, gains from the sale of two financial centers and other assets (excluding SEBS) contributed $1.6 million, additional debit and ATM fees contributed $1.7 million, service charges on deposits contributed $1.2 million, insurance services revenue contributed $0.8 million, and mortgage services revenue contributed $0.2 million. Partially offsetting this increase was a $0.8 million BOLI revenue decrease due to death benefits received in 2005 that did not recur in 2006 and a $0.3 million charge in 2006 to restructure the BOLI, partially offset by increased revenue resulting from the restructuring and increased investment.

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Selected items discussed above and included in noninterest income follow:

Table Five
Selected Items Included in Noninterest Income

	For the Calendar Year (In thousands)		
	2006	**2005**	**2004**
Gains (losses) on sale of securities	**$ (5,828)**	$ (16,690)	$ 2,383
Gain on sale of deposits and loans	**2,825**		339
Equity method investments gains (losses), net	**3,983**	(271)	(349)
Bank owned life insurance	**(271)**	925	
Gain on sale of property	**645**	1,853	777

Noninterest Expense

Historical noninterest expense amounts have been restated to reflect the effect of reporting the previously announced sale of SEBS as a discontinued operation. For 2006, noninterest expense from continuing operations decreased $3.1 million to $124.9 million, compared to 2005. The 2006 results include $5.0 million in expenses related to Raleigh, compared to $1.2 million in 2005.

Details of noninterest expense follow:

Table Six
Noninterest Expense

	For the Calendar Year (In thousands)		
	2006	**2005**	**2004**
Salaries and employee benefits	**$ 69,237**	$ 61,428	$ 56,103
Occupancy and equipment	**18,144**	16,565	16,938
Data processing	**5,768**	5,171	3,830
Marketing	**4,711**	4,668	4,350
Postage and supplies	**4,834**	4,478	4,772
Professional services	**8,811**	8,072	9,389
Telecommunications	**2,193**	2,139	1,944
Amortization of intangibles	**654**	378	316
Foreclosed properties	**755**	386	161
Debt extinguishment expense		6,884	
Derivative termination costs		7,770	
Other	**9,830**	10,032	9,693
Noninterest expense from continuing operations	**124,937**	127,971	107,496
Noninterest expense from discontinued operations	**2,976**	3,251	3,521

Total noninterest expense	**$ 127,913**	$ 131,222	$ 111,017
Full-time equivalent employees at year-end(1)	**1,099**	1,064	1,014

(1) At December 31, 2006, full-time equivalent employees excluded personnel of Southeastern Employee Benefits Services (SEBS), which was sold December 1, 2006. At December 31, 2005 and 2004, full-time equivalent employees included SEBS personnel of 42. At December 31, 2006, full-time equivalent employees included Gwinnett Bank personnel of 47.

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Salaries and benefits expense for 2006 was $69.2 million, a $7.8 million increase compared to 2005. The increase in salaries and benefits expense reflects a larger number of full-time equivalent employees, resulting from the GBC acquisition and additional personnel in Raleigh along with normal salary increases. Of the increase, approximately $2.0 million was due to additional personnel in the Raleigh market and $1.1 million was attributable to the GBC acquisition. Beginning in 2006, First Charter began expensing all stock-based compensation awards in accordance with SFAS 123(R). Equity-based compensation expense for 2006 (stock options, performance shares, and restricted stock) totaled $2.8 million, including $0.7 million of expense related to the vesting of all stock options granted from 2003 to 2005, whereas restricted stock expense in 2005 was $0.2 million. Incentive-based compensation contributed $1.2 million toward the increase in salaries and employee benefits expense for 2006. 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, along with a $0.4 million favorable actuarial revision to a medical reserve recognized in the third quarter of 2006, and a $0.5 million favorable reduction in the medical claims IBNR in the second quarter of 2006. Separation expense was $0.7 million in 2006, versus $1.0 million in 2005 in connection with the former Chief Financial Officer s retirement in early 2005.

Occupancy and equipment expense increased $1.6 million due to additional financial center lease and depreciation costs, of which approximately $1.1 million was related to additional Raleigh financial centers. These increases were partially offset by certain corporate fixed assets becoming fully depreciated in the third and fourth quarters of 2006 and no longer being expensed. Further adding to the variance between years was a $1.4 million reduction in occupancy and equipment in 2005 due to a correction related to First Charter s fixed asset records.

Professional services expense rose $0.7 million, reflecting an increase in outsourced services over 2005. Data processing expense increased $0.6 million as a result of increased transaction volume.

Foreclosed properties expense increased by $0.4 million, principally attributable to a loss on one property in the second quarter of 2006.

Intangible amortization expense for 2006 increased by $0.3 million due to additional contingent consideration paid in 2006 in connection with prior-year acquisitions and $0.2 million of core deposit intangible amortization from the GBC acquisition.

Noninterest expense in 2005 included a $7.8 million charge to terminate derivative transactions and a $6.9 million charge due to the early extinguishment of debt. These expenses did not recur in 2006.

The efficiency ratio, equal to noninterest expense as a percentage of tax-equivalent net interest income and total noninterest income, was 59.6 percent in 2006, compared to 59.4 percent in 2005. The calculation of the efficiency ratio excludes the impact of securities sales in both years and the debt extinguishment and derivative termination charges related to the balance sheet repositioning in 2005.

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Selected items discussed above and included in noninterest expense follow:

Table Seven
Selected Items Included in Noninterest Expense

	For the Calendar Year		
	2006	**2005**	**2004**
	(In thousands)		
Employee benefit plan modification	**$**	$ 1,079	$
Separation agreements	**675**	1,010	
Accelerated vesting of stock options	**665**		
Actuarial revision to medical reserve	**(391)**		
Medical claims IBNR reserve	**(470)**		
Fixed asset correction		(1,386)	
Merger-related costs	**302**		
Debt extinguishment expense		6,884	
Derivative termination costs		7,770	

Income Tax Expense

Income tax expense from continuing operations for 2006 amounted to $23.8 million, compared to $9.1 million for 2005. Income tax expense from discontinued operations for 2006 was $965,000 in 2006, versus $88,000 in 2005. The effective tax rate, including the related effects of both continuing and discontinued operations, was 34.3 percent and 26.7 percent for 2006 and 2005, respectively. The lower effective tax rate in 2005 was primarily attributable to the decrease in income, principally resulting from the balance sheet repositioning, relative to nontaxable adjustments. The effective tax rate for both years was lowered by the reduction in previously accrued taxes due to reduced risk on certain tax contingencies. For further discussion, see Note 17 of the consolidated financial statements for the year ended December 31, 2006 included with this proxy statement/prospectus.

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The following table provides certain selected quarterly financial data:

Table Eight
Selected Financial Data by Quarter

	2006 Quarters				2005 Quarters		
	Fourth	**Third**	**Second**	**First**	**Fourth**	**Third**	**Second**
	(Dollars in thousands, except per share amounts)						
	$ 74,456	$ 67,085	$ 63,742	$ 59,646	$ 58,639	$ 59,080	$ 55,604
	38,441	34,127	31,095	27,556	26,710	27,990	24,314
	36,015	32,958	32,647	32,090	31,929	31,090	31,290
es	1,486	1,405	880	1,519	1,795	2,770	2,878
ss)	17,388	17,007	16,292	16,991	(675)	16,295	16,271
	33,853	29,655	30,688	30,741	43,249	28,142	28,532
	18,064	18,905	17,371	16,821	(13,790)	16,473	16,151
	5,962	6,223	5,946	5,668	(5,510)	4,389	5,000
	12,102	12,682	11,425	11,153	(8,280)	12,084	11,151
ns:							
s	(162)		50	148	(83)	(53)	214
	962						
	887		20	58	(33)	(21)	85
s,							
	(87)		30	90	(50)	(32)	129
	$ 12,015	$ 12,682	$ 11,455	$ 11,243	$ (8,330)	$ 12,052	$ 11,280
	$ 0.36	$ 0.41	$ 0.37	$ 0.36	$ (0.27)	$ 0.40	$ 0.37

s,							
	0.36	0.41	0.37	0.36	(0.27)	0.39	0.37
	0.36	0.40	0.37	0.36	(0.27)	0.39	0.36
s,							
	0.36	0.40	0.37	0.36	(0.27)	0.39	0.37
	33,268,542	31,056,059	31,058,858	30,859,461	30,678,743	30,575,440	30,409,307
	33,583,617	31,426,563	31,339,325	31,153,338	30,678,743	30,891,887	30,679,636
red	0.195	0.195	0.195	0.190	0.190	0.190	0.190
e	12.81	11.20	10.73	10.68	10.53	10.82	10.73
	11.69%	14.76%	13.80%	13.99%	(10.21)%	14.57%	14.12
	1.02	1.16	1.07	1.09	(0.77)	1.02	1.00
	3.40	3.33	3.36	3.40	3.27	2.92	3.03
s	105.88	103.37	108.27	105.51	103.01	103.01	103.43
	8.75	7.86	7.79	7.76	7.52	7.03	7.05
	62.6	52.6	62.0	61.9	58.9	58.7	59.3
	$ 3,450,087	$ 3,061,864	$ 3,042,768	$ 2,981,458	$ 2,917,020	$ 2,900,357	$ 2,829,127
	12,292	10,923	8,382	8,719	6,447	7,309	8,159
ses	34,966	29,919	29,520	29,505	28,725	29,788	29,032
	906,415	899,120	884,370	900,424	899,111	1,374,163	1,412,885
	4,856,717	4,382,507	4,361,231	4,281,417	4,232,420	4,699,722	4,633,236
	3,248,128	2,954,854	2,988,802	2,800,346	2,799,479	2,872,993	2,751,385
	1,098,698	1,031,798	995,707	1,103,784	1,068,573	1,438,388	1,503,322
	4,409,355	4,033,069	4,027,333	3,950,736	3,908,824	4,368,677	4,305,538
	447,362	349,438	333,898	330,681	323,596	331,045	327,698
	3,336,563	3,070,286	3,021,005	2,939,233	2,924,064	2,896,794	2,781,606
	10,757	8,792	9,810	6,675	8,131	8,160	6,832
	924,773	923,293	921,026	914,760	1,028,477	1,420,033	1,441,853
	4,284,735	4,013,745	3,960,835	3,868,519	3,969,620	4,331,780	4,236,232

4,664,431	4,336,270	4,274,345	4,201,477	4,303,821	4,665,301	4,543,846
3,151,120	2,970,047	2,790,197	2,785,632	2,838,566	2,812,165	2,689,390
1,054,550	984,504	1,108,734	1,049,529	1,099,350	1,471,482	1,491,636
407,929	340,986	332,987	325,917	323,753	328,115	320,412

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(1) Annualized

(2) Due to rounding, earnings per share on continuing and discontinued operations may not sum to earnings per share on net income.

(3) 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, net. Excludes the results of discontinued operations.

Balance Sheet Analysis

Securities Available-for-Sale

The securities portfolio, all of which is classified as available-for-sale, is a component of First Charter s Asset Liability Management (ALM) strategy. The decision to purchase or sell securities is based upon liquidity needs, changes in interest rates, changes in First Charter Bank s risk tolerance, the composition of the rest of the balance sheet, and other factors. Securities available-for-sale are accounted for at fair value, with unrealized gains and losses recorded net of tax as a component of other comprehensive income in shareholders equity unless the unrealized losses are considered other-than-temporary.

The fair value of the securities portfolio is determined by various third party sources. The valuation is determined as of a date within close proximity to the end of the reporting period based on available quoted market prices or quoted market prices for similar securities if a quoted market price is not available.

At December 31, 2006, securities available for sale were $906.4 million, compared to $899.1 million at December 31, 2005. Pretax unrealized net losses on securities available for sale were $9.8 million at December 31, 2006, compared to pretax unrealized net losses of $18.6 million at December 31, 2005. The recognition of $5.8 million of losses during 2006 on the sale of $165.8 million of securities, along with the aging of existing securities led to the reduction in the unrealized losses between December 31, 2005 and December 31, 2006. The unrealized losses in the securities portfolio have primarily resulted from the rise in interest rates over the past few years. First Charter has been purchasing shorter-duration securities with more predictable cash flows in a variety of interest rate scenarios as part of its overall balance sheet management. During 2006, proceeds from the aforementioned sale of securities, along with maturities, paydowns, and calls were used to purchase $249.3 million of securities, principally mortgage- and asset-backed securities. The asset-backed securities purchased are collateralized debt obligations, representing securitizations of financial company capital securities and were purchased for portfolio risk diversification and their higher yields.

The following table shows the carrying value of (i) U.S. government obligations, (ii) U.S. government agency obligations, (iii) mortgage-backed securities, (iv) state, county, and municipal obligations, (v) equity securities, which are primarily comprised of Federal Reserve and Federal Home Loan Bank stock, and (vi) asset-backed securities.

Table Nine
Investment Portfolio

	December 31		
	2006	**2005**	**2004**
	(In thousands)		
U.S. government obligations	**$**	$ 14,878	$ 54,374

U.S. government agency obligations	**275,394**	320,407	691,970
Mortgage-backed securities	**412,020**	405,450	726,381
State, county, and municipal obligations	**102,602**	108,996	115,380
Asset-backed securities	**65,115**	4,994	
Equity securities	**51,284**	44,386	64,627
Total	**$ 906,415**	$ 899,111	$ 1,652,732

Loan Portfolio

First Charter s loan portfolio at December 31, 2006, consisted of six major categories: Commercial Non Real Estate, Commercial Real Estate, Construction, Mortgage, Home Equity, and Consumer. Pricing is driven by quality, loan size, loan tenor, prepayment risk, First Charter s relationship with the customer, competition, and other factors. First Charter is primarily a secured lender in all of these loan categories. The terms of First Charter s loans are generally five years or less with the exception of home equity lines and residential mortgages, for which the terms can range out to 30 years. In addition, First Charter has a program in which it buys and sells portions of loans (primarily originated in the Southeastern region of the United States), both participations and syndications, from key strategic partner financial institutions with which First Charter has established relationships. This strategic partners portfolio includes commercial real estate, commercial non real estate, and construction loans. This program enables First Charter to diversify both its geographic risk and its total exposure risk. From time to time, First Charter also sources commercial real estate, commercial non real estate, construction, and consumer loans through correspondent relationships. As of December 31, 2006, First Charter s total loan portfolio included $331.7 million of loans originated through the strategic partners program and correspondent relationships.

Commercial Non Real Estate

First Charter s commercial non real estate lending program is generally targeted to serve small-to-middle market businesses with annual sales of $50 million or less in First Charter s geographic area. Commercial lending includes commercial, financial, agricultural and industrial loans. Pricing on commercial non real estate loans is usually tied to widely recognized market indexes, such as the prime rate, the London InterBank Offer Rate (LIBOR), the U.S. dollar interest-rate swap curve, or rates on U.S. Treasury securities.

Commercial Real Estate

Similar to commercial non real estate lending, First Charter s commercial real estate lending program is generally targeted to serve small-to-middle market businesses with annual sales of $50 million or less in First Charter s geographic area. The real estate loans are both owner occupied and project related.

Construction

Real estate construction loans include both commercial and residential construction, together with construction/permanent loans, which are intended to convert to permanent loans upon completion of the construction project. Loans for commercial construction are usually to in-market developers, builders, businesses, individuals or real estate investors for the construction of commercial structures primarily in First Charter s market area. Loans are made for purposes including, but not limited to, the construction of industrial facilities, apartments, shopping centers, office buildings, homes and warehouses. The properties may be constructed for sale, lease or owner-occupancy.

Mortgage

First Charter originates one-to-four family residential mortgage loans throughout its footprint and through loan origination offices in Reston, Virginia. From time to time, First Charter has purchased ARM loans in other market areas through a correspondent relationship. At December 31, 2006, loans purchased through this relationship represented $155.3 million, or 25 percent, of the total mortgage loan portfolio. The majority of the purchased loans consist of interest-only ARMs, which currently reprice in 3 to 5 years. No mortgage loans have been purchased since the first quarter of 2005. First Charter offers a full line of products, including conventional, conforming, and jumbo fixed-rate and adjustable-rate mortgages, which are originated and sold into the secondary market; however, from time to time a portion of this production is retained and then serviced through a third-party arrangement.

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Consumer

First Charter offers a wide variety of consumer loan products. Various types of secured and unsecured loans are marketed to qualifying existing customers and to other creditworthy candidates in First Charter s market area. Unsecured loans, including revolving credits (e.g., checking account overdraft protection and personal lines of credit) are provided and various installment loan products such as unimproved lot loans as well as vehicle and marine loans are also offered.

Home Equity

Home Equity loans and lines are secured by first and second liens on the borrower s residential real estate. As with all consumer lending, home equity loans are centrally decisioned and documented to ensure the underwriting conforms to the corporate lending policy.

The table below summarizes loans in the classifications indicated.

Table Ten
Loan Portfolio Composition

	For the Calendar Year (In thousands)				
	2006	**2005**	**2004**	**2003**	**2002**
Commercial real estate	**$ 1,034,330**	$ 780,597	$ 776,474	$ 724,340	$ 798,664
Commercial non real estate	**301,958**	233,409	212,031	212,010	223,178
Construction	**793,294**	517,392	332,264	358,217	215,859
Mortgage	**618,142**	660,720	449,206	391,641	322,775
Home equity	**447,849**	495,181	474,295	400,792	325,132
Consumer	**289,493**	258,619	195,422	165,804	187,109
Total portfolio loans	**3,485,066**	2,945,918	2,439,692	2,252,804	2,072,717
Allowance for loan losses	**(34,966)**	(28,725)	(26,872)	(25,607)	(27,204)
Unearned income	**(13)**	(173)	(291)	(167)	(247)
Portfolio loans, net	**$ 3,450,087**	$ 2,917,020	$ 2,412,529	$ 2,227,030	$ 2,045,266

Gross loans increased $539.1 million, or 18 percent, to $3.5 billion at December 31, 2006, compared to $2.9 billion at December 31, 2005. A major component of the growth in loans was the acquisition of GBC, which accounted for $340.6 million of the growth from year-end 2005. Excluding the GBC acquisition, commercial and construction loans grew $271.9 million, or nearly 18 percent. Mortgage loans declined by $42.6 million, or 6 percent, due in part to normal loan amortization, and the decline is consistent with First Charter s strategy of selling the bulk of the new mortgage loan originations into the secondary market rather than retaining the loans on its balance sheet. Home equity loans declined $47.3 million, partly as a result of customers refinancing adjustable-rate home equity loans into fixed-rate first mortgage loans. Consumer loans increased $30.9 million, of which $14.4 million is attributable to the GBC acquisition, with the remainder attributable to organic growth. Also affecting loan balances was an $8.1 million reduction of loans, primarily consumer loans, sold in connection with the previously mentioned sale of two financial

centers in 2006. In late 2005 and early 2006, First Charter expanded into the Raleigh, North Carolina market with four *de novo* financial centers. At December 31, 2006, First Charter s loans included $133.8 million, principally commercial and construction loans, from the Raleigh market.

The mix of variable-rate, adjustable-rate and fixed-rate loans is incorporated into First Charter s ALM strategy. As of December 31, 2006, of the $3.5 billion loan portfolio, $1.9 billion were tied to variable interest rates, $1.1 billion were fixed-rate loans, and $0.5 billion were ARMs with an initial fixed-rate period after which the loan rate floats on a predetermined schedule.

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During the third quarter of 2006, approximately $93.9 million of consumer loans secured by real estate were transferred from the consumer loan category to the home equity ($13.5 million) and mortgage ($80.4 million) loan categories to make the balance sheet presentation more consistent with bank regulatory definitions. The balance sheet transfer had no effect on credit reporting, underwriting, reported results of operations, or liquidity. Prior period-end balances have been reclassified to conform to the current-period presentation.

Total loan average balances for 2006 increased $306.1 million, or 10.9 percent, to $3.1 billion, compared to $2.8 billion for 2005. Commercial loan growth drove the increase, rising by $290.7 million, or 10.4 percent, of which $54.0 million was attributable to the GBC acquisition. The remainder reflected continued robust organic commercial lending in the Charlotte and Raleigh markets. Consumer loan average balances, including home equity, increased $20.1 million and mortgage loan average balances decreased $6.8 million. The decline in mortgage loan balances was due to normal loan amortization and First Charter s strategy of selling most of its new mortgage production in the secondary market. GBC had no residential mortgages on its balance sheet at the time of the acquisition. Cash flow from mortgage loan runoff contributed to financing higher yielding commercial loans.

In late September 2006, First Charter s previously announced sale of two financial centers was completed. This sale reduced total loan average balances nominally for the year.

Deposits

A summary of deposits follows:

Table Eleven
Deposits

	December 31 (In thousands)				
	2006	**2005**	**2004**	**2003**	**2002**
Noninterest bearing demand	**$ 454,975**	$ 429,758	$ 377,793	$ 326,679	$ 305,924
Interest bearing demand	**420,774**	368,291	348,677	322,471	301,329
Money market accounts	**620,699**	559,865	478,314	470,551	305,530
Savings deposits	**111,047**	119,824	119,615	118,025	114,676
Certificates of deposit	**1,640,633**	1,321,741	1,285,447	1,190,171	1,295,188
Total deposits	**$ 3,248,128**	$ 2,799,479	$ 2,609,846	$ 2,427,897	$ 2,322,647

Deposit growth, particularly low-cost transaction (or core) deposit growth (money market, demand, and savings accounts), continues to be an area of emphasis for First Charter. For 2006, core deposit balances increased $129.8 million, or 8.8 percent, compared year-end 2005. This includes the impact of First Charter s sale of two financial centers in September 2006, which included the sale of $23.8 million of core deposits. Approximately $108.9 million of the core deposit balance growth was attributable to the GBC acquisition. The total core deposit increase was primarily driven by a $60.8 million, or 10.9 percent, increase in money market balances, a $52.5 million, or 14.3 percent, increase in interest checking balances, and a $25.2 million, or 5.9 percent, increase in noninterest-bearing demand deposit balances, slightly offset by an $8.8 million, or 7.3 percent, decrease in savings balances. Of these increases, GBC contributed approximately $69.4 million to money market deposit balances, $6.2 million to interest checking and saving balances, and $33.2 million to noninterest-bearing demand deposit

balances. Certificates of deposit (CDs) also grew $318.9 million, of which $228.4 million was attributable to the GBC acquisition. Overall, retail CDs increased $306.7 million and brokered CDs increased $12.2 million. Customers exhibited a strong preference for certificates of deposit during 2006, as CDs offered more attractive returns in 2006 s higher interest-rate environment than had existed in recent years.

Other Borrowings

Other borrowings consist of Federal Funds purchased, securities sold under agreement to repurchase, commercial paper and other short-term borrowings, and long-term borrowings. Federal funds purchased

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represent unsecured overnight borrowings from other financial institutions by First Charter Bank. At December 31, 2006, First Charter Bank had federal funds back-up lines of credit totaling $188.2 million with $41.5 million outstanding, compared to similar lines of credit totaling $100.0 million with $25.0 million outstanding at December 31, 2005. Securities sold under agreements to repurchase represent short-term borrowings by First Charter Bank with maturities less than one year collateralized by a portion of First Charter s United States Government or Agency securities. Securities sold under agreements to repurchase totaled $160.2 million at December 31, 2006, compared to $287.3 million at December 31, 2005. These borrowings are an important source of funding to First Charter. Access to alternate short-term funding sources allows First Charter to meet funding needs without relying on increasing deposits on a short-term basis.

First Charter issues commercial paper as another source of short-term funding. It is purchased primarily by First Charter Bank s commercial deposit clients. Commercial paper outstanding at December 31, 2006 was $38.2 million, compared to $58.4 million at December 31, 2005.

Other short-term borrowings consist of the FHLB borrowings with an original maturity of one year or less. FHLB borrowings are collateralized by securities from First Charter s investment portfolio, and a blanket lien on certain qualifying commercial and single-family loans held in First Charter s loan portfolio. At December 31, 2006, First Charter Bank and Gwinnett Bank collectively had $371.0 million of short-term FHLB borrowings, compared to First Charter Bank s $140.0 million at December 31, 2005. In addition, First Charter had a $25.0 million bank credit line that was not drawn upon at December 31, 2005. No comparable line existed at December 31, 2006. First Charter, in its overall management of interest-rate risk, is opportunistic in evaluating alternative funding sources; while balancing the funding needs of First Charter, it considers the duration of available maturities, the relative attractiveness of funding costs, and the diversification of funding sources, among other factors, in order to maintain flexibility in the nature of deposits and borrowings First Charter holds at any given time. As part of the balance sheet repositioning in 2005, First Charter extinguished $224.0 million of short-term debt, primarily with the FHLB, which had an average floating rate of Fed Funds plus 25 basis points, or approximately 4.00 percent at the time of prepayment.

Long-term borrowings represent FHLB borrowings with original maturities greater than one year and subordinated debentures related to trust preferred securities. At December 31, 2006, First Charter Bank had $425.9 million of long-term FHLB borrowings, compared to $496.0 million at December 31, 2005. In addition, First Charter had $61.9 million of subordinated debentures at December 31, 2006 and 2005.

First Charter formed First Charter Capital Trust I and First Charter Capital Trust II, in June 2005 and September 2005, respectively; both are wholly-owned business trusts. First Charter Capital Trust I and First Charter Capital Trust II issued $35 million and $25 million, respectively, of trust preferred securities that were sold to third parties. The proceeds of the sale of the trust preferred securities were used to purchase subordinated debentures from First Charter, which are presented as long-term borrowings in the consolidated balance sheet and qualify for inclusion in Tier 1 capital for regulatory capital purposes, subject to certain limitations.

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The following is a schedule of other borrowings which consists of the following categories: Federal funds purchased and securities sold under repurchase agreements, commercial paper, and other short-term borrowings.

Table Twelve
Other Borrowings

	December 31					
	2006		2005		2004	
	Balance	Rate	Balance	Rate	Balance	Rate
	(Dollars in thousands)					
Federal funds purchased and securities sold under agreements to repurchase:						
Balance as of	**$ 201,713**	**4.60%**	$ 312,283	3.01%	$ 250,314	1.84%
Average balance for the year	**260,548**	**4.24**	348,051	2.94	245,394	1.21
Maximum outstanding at any month-end	**323,775**		494,566		297,818	
Commercial Paper:						
Balance as of	**38,191**	**2.72**	58,432	1.79	59,684	1.30
Average balance for the year	**26,239**	**2.41**	40,786	1.62	32,658	1.38
Maximum outstanding at any month-end	**43,057**		58,432		59,684	
Other short-term borrowings:						
Balance as of	**371,000**	**5.35**	140,000	4.39	266,000	2.49
Average balance for the year	**145,419**	**5.08**	266,121	3.32	383,462	1.59
Maximum outstanding at any month-end	**371,000**		716,000		477,000	

Credit Risk Management

First Charter s credit risk policy and procedures are centralized for every loan type. In addition, all mortgage, consumer, and home equity loans are centrally decisioned. All loans generally flow through an independent closing unit to ensure proper documentation. Loans originated by First Charter s Atlanta-based lenders are currently being processed and closed independently from First Charter s centralized credit structure. Finally, all known collection or problem loans are centrally managed by experienced workout personnel. To monitor the effectiveness of policies and procedures, Management maintains a set of asset quality standards for past due, nonaccrual, and watchlist loans and monitors the trends of these standards over time. These standards are approved by the Board of Directors and reviewed quarterly with the Board of Directors for compliance.

Loan Administration and Underwriting

First Charter Bank s Chief Risk Officer is responsible for the continuous assessment of First Charter Bank s risk profile as well as making any necessary adjustments to policies and procedures. Commercial loan relationships of less than $750,000 may be approved by experienced commercial loan officers, within their loan authority. Commercial and commercial real estate loans are approved by signature authority requiring at least two experienced officers for relationships greater than $750,000. The exceptions to this include City Executives and certain Senior Loan Officers

who are authorized to approve relationships up to $1.0 million. An independent Risk Manager is involved in the approval of commercial and commercial real estate relationships that exceed $1.0 million. All relationships greater than $2.0 million receive a comprehensive annual review by either the senior credit analysts or lending officers of First Charter Bank, which is then reviewed by the independent Risk Managers and/or the final approval officer with the appropriate signature authority. Relationships totaling $5.0 million or more are further reviewed by senior lending officers of First Charter Bank, the Chief Risk Officer, and the Credit Risk Management Committee comprised of certain executive and senior management. In addition, relationships totaling $10.0 million or more are reviewed by the Board of Directors Credit and Compliance Committee. These oversight committees provide policy, process, product and specific relationship direction to the lending personnel. As of December 31, 2006, First

Charter had a legal lending limit of $70.0 million and a general target-lending limit of $10.0 million per relationship.

First Charter 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 First Charter 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, First Charter 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 First Charter s credit policies and procedures.

During 2006, First Charter implemented a new consumer loan platform to improve servicing for customers by providing loan officers with additional tools and real-time access to credit bureau information at the time of loan application. This platform also delivers increased reporting capabilities and improved credit risk management by having First Charter s policies embedded into the decision process while also managing approval authority limits for credit exposure and reporting.

In general, consumer loans (including mortgage and home equity) have a lower risk profile than commercial loans. Commercial loans (including commercial real estate, commercial non real estate and construction loans) are generally larger in size and more complex than consumer loans. Commercial real estate loans are deemed less risky than commercial non real estate and construction loans, because the collateral value of real estate generally maintains its value better than non real estate or construction collateral. Consumer loans, which are smaller in size and more geographically diverse across First Charter 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 First Charter s lowest risk profile loan type. Home equity loans are deemed less risky than unsecured consumer loans, as home equity loans and lines are secured by first or second deeds of trust on the borrower s residential real estate. A centralized decision-making process is in place to control the risk of the consumer, home equity, and mortgage loan portfolio. The consumer real estate appraisal process is also centralized relative to appraisal engagement, appraisal review, and appraiser quality assessment. These processes are detailed in the underwriting guidelines, which cover each retail loan product type from underwriting, servicing, compliance issues and closing procedures.

At December 31, 2006, the substantial majority of the total loan portfolio, including the commercial and real estate portfolio, represented loans to borrowers within the Metro regions of Charlotte and Raleigh, North Carolina and Atlanta, Georgia. The diverse economic base of these regions tends to provide a stable lending environment; however, an economic downturn in the Charlotte region, First Charter 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 this region.

Additionally, First Charter 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 First Charter s assessment, these products do not give rise to a concentration of credit risk.

Derivatives

Credit risk associated with derivatives is measured as the net replacement cost should the counter-parties with contracts in a gain position to First Charter fail to perform under the terms of those contracts after considering recoveries of underlying collateral and netting agreements. In managing derivative credit risk, both the current exposure, which is the replacement cost of contracts on the measurement date, as well as an estimate of the potential change in value of contracts over their remaining lives are considered. To minimize credit risk, First Charter may enter into legally enforceable master netting agreements, which reduce risk by permitting the closeout and netting of

transactions with the same counter-party upon the occurrence of certain events. In addition, First Charter reduces risk by obtaining collateral based on individual assessments of the counter-parties to these agreements. The determination of the need for and levels of collateral will vary

depending on the credit risk rating of the counter-party. See Asset-Liability Management and Interest Rate Risk for further details regarding interest-rate swap agreements. As previously discussed, First Charter repositioned its balance sheet in the fourth quarter of 2005. As a result, First Charter extinguished $222 million in debt and related interest-rate swaps in October of 2005. As of December 31, 2006 and 2005, First Charter had no stand-alone derivative instruments 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 December 31, 2006, no loans were 90 days or more past due and still accruing interest.

A summary of nonperforming assets follows:

Table Thirteen
Nonperforming Assets

	December 31				
	2006	**2005**	**2004**	**2003**	**2002**
	(In thousands)				
Nonaccrual loans	**$ 8,200**	$ 10,811	$ 13,970	$ 14,910	$ 26,467
Loans 90 days or more past due accruing interest				21	
Total nonperforming loans	**8,200**	10,811	13,970	14,931	26,467
Other real estate	**6,477**	5,124	3,844	6,836	10,278
Nonperforming assets	**$ 14,677**	$ 15,935	$ 17,814	$ 21,767	$ 36,745
Nonaccrual loans as a percentage of total portfolio loans	**0.24%**	0.37%	0.57%	0.66%	1.28%
Nonperforming assets as a percentage of:					
Total assets	**0.30**	0.38	0.40	0.52	0.98
Total portfolio loans and other real estate	**0.42**	0.54	0.73	0.96	1.76
	0.11	0.27	0.28	0.39	0.30

Net charge-offs to average portfolio loans					
Allowance for loan losses to portfolio loans	**1.00**	0.98	1.10	1.14	1.31
Allowance for loan losses to net charge-offs	**10.73x**	3.84x	4.09x	3.07x	4.34x
Allowance for loan losses to nonperforming loans	**4.26**	2.66	1.92	1.72	1.03

Nonaccrual loans totaled $8.2 million at December 31, 2006, representing a $2.6 million decrease from $10.8 million at December 31, 2005. The decrease from the prior year was primarily due to a $2.8 million decrease in commercial loan nonaccruals. A $1.5 million increase in nonaccruals for mortgage loans was mostly offset by a $1.4 million decrease in nonaccruals on consumer loans. OREO increased $1.4 million from year-end 2005 as the number of properties under management increased by 19 percent. The GBC acquisition

contributed $159,000 to the increase in OREO. Nonperforming assets as a percentage of total loans and other real estate owned decreased to 0.42 percent at December 31, 2006, compared to 0.54 percent at December 31, 2005. Interest income that would have been recorded on nonaccrual loans and restructured loans for 2006, 2005, and 2004, had they performed in accordance with their original terms, amounted to $639,000, $784,000, and $1.1 million, respectively. Interest income on all such loans included in the results of operations for 2006, 2005, and 2004 was $381,000, $107,000, and $278,000, respectively.

Nonaccrual loans at December 31, 2006, 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.

As of December 31, 2006, management identified a $2.8 million commercial acquisition and development loan as a potential problem loan. In early January 2007, this loan became 90 days past due and was placed on nonaccrual status. At December 31, 2006, First Charter Bank anticipated the borrower would cure the delinquency to keep the loan from reaching 90 days past due. Although this loan went on nonaccrual after year-end, management believes the loan is well-secured by the underlying collateral and continues to work with the borrower and guarantors to ensure full collection of principal.

Allowance for Loan Losses

First Charter s allowance for loan losses consists of three components: (i) valuation allowances computed on impaired loans in accordance with SFAS 114, *Accounting by Creditors for Impairment of a Loan an Amendment to FASB Statements No. 5 and No. 15*; (ii) valuation allowances determined by applying historical loss rates and reserve factors 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 and, along with a narrative analysis, comprise First Charter 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 First Charter s control. Because a significant portion of the loan portfolio is comprised of real estate loans and loans to area businesses, First Charter is subject to risk in the real estate market and changes in the economic conditions in its primary market areas. Changes in these areas can increase or decrease the provision for loan losses.

As noted above, First Charter uses historical loss rates as a component of estimating future losses in the loan portfolio. First Charter 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 First Charter 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 and management s assessment of the risk inherent in the portfolio, during the second quarter of 2006, First Charter reduced its historical loss rate factor 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 2006, First Charter made no changes to its estimated loss percentages for economic factors. As a part of its quarterly assessment of the allowance for loan losses, First Charter reviews key local, regional and national economic information and assesses its impact on the allowance for loan losses. Based on its review for 2006, First Charter noted that economic conditions are mixed; however, management concluded that the impact on borrowers and local

industries in First Charter s primary market areas did not change significantly during the period. Accordingly, First Charter did not modify its loss estimate percentage attributable to economic factors in its allowance for loan losses model.

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First Charter continually reviews its portfolio for any concentrations of loans to any one borrower or industry. To analyze its concentrations, First Charter prepares various reports showing total risk concentrations to borrowers by industry, as well as reports showing total risk concentrations to one borrower. At the present time, First Charter 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.

First Charter 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.

First Charter continually assesses its loan loss allocation methodology and model. During the course of 2006, there were no material changes to the variables used in the allowance for loan loss model. First Charter continues to use a loss history of 36 months for consumer loans and 60 months for commercial loans. First Charter believes the loss histories accurately reflect the life cycle of the respective loan portfolios. First Charter expects to continue the evolution of its allowance for loan loss methodology and model in the future.

The table below presents (i) the allowance for loan losses at the beginning of the year, (ii) loans charged off and recovered (iii) loan charge-offs, net, (iv) the provision for loan losses, (v) the allowance for loan losses, (vi) the average amount of net loans outstanding, (vii) the ratio of net charge-offs to average loans and (viii) the ratio of the allowance for loan losses to gross loans.

Table Fourteen
Allowance For Loan Losses

	For the Calendar Year				
	2006	**2005**	**2004**	**2003**	**2002**
	(In thousands)				
Balance at beginning of period	**$ 28,725**	$ 26,872	$ 25,607	$ 27,204	$ 25,843
Charge-offs					
Commercial non real estate	**723**	3,116	1,449	3,484	2,397
Commercial real estate	**762**	1,967	2,791	1,898	659
Construction		7			641
Mortgage	**148**	167	29	31	111
Home equity	**1,108**	857	1,008	685	193
Consumer	**1,837**	2,538	3,275	3,382	2,989
Total charge-offs	**4,578**	8,652	8,552	9,480	6,990
Recoveries					
Commercial non real estate	**643**	542	894	451	20
Commercial real estate				4	228
Construction				24	
Mortgage	**35**	36	29		11
Home equity	**1**	39			
Consumer	**639**	545	1,053	635	337

Other				34	132
Total recoveries	**1,318**	1,162	1,976	1,148	728
Net charge-offs	**3,260**	7,490	6,576	8,332	6,262

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	For the Calendar Year				
	2006	2005	2004	2003	2002
	(In thousands)				
Provision for loan losses	**5,290**	9,343	8,425	27,518	8,270
Allowance of acquired company	**4,211**				
Allowance related to loans sold			(584)	(20,783)	(647)
Balance at end of period	**$ 34,966**	$ 28,725	$ 26,872	$ 25,607	$ 27,204
Average portfolio loans	**$ 3,092,801**	$ 2,788,755	$ 2,353,605	$ 2,126,821	$ 2,112,855
Net charge-offs to average portfolio loans (annualized)	**0.11%**	0.27%	0.28%	0.39%	0.30%
Allowance for loan losses to portfolio loans	**1.00**	0.98	1.10	1.14	1.31

First Charter s charge-off policy meets or exceeds regulatory minimums. Past-due status is based on contractual payment date. Losses on unsecured consumer debt are recognized at 90 days past due, compared to the regulatory loss criteria of 120 days. Secured consumer loans, including residential real estate, are typically charged-off between 120 and 180 days, depending on the collateral type, in compliance with the Federal Financial Institutions Examination Council (FFIEC) guidelines. Losses on commercial loans are recognized promptly upon determination that all or a portion of any loan balance is uncollectible. Any deficiency that exists after liquidation of collateral will be taken as a charge-off. Subsequent payment received will be treated as a recovery when collected.

The allowance for loan losses was $35.0 million, or 1.00 percent of portfolio loans, at December 31, 2006, compared to $28.7 million, or 0.98 percent of portfolio loans, at December 31, 2005. First Charter s addition of GBC s loan portfolio as well as First Charter s credit migration trends led to the higher allowance for loan loss ratio.

The following table presents the dollar amount of the allowance for loan losses applicable to major loan categories and the percentage of the loans in each category to total loans. The amount of the allowance assigned to each loan category reflects both the absolute level of outstandings and the historical loss experience of the loans adjusted for current economic events or conditions.

Table Fifteen
Allocation of the Allowance for Loan Losses

December 31									
2006		2005		2004		2003		2002	
Amount	Loan/ Total Loans	Amount	Loan/ Total Loans	Amount	Loan/ Total Loans	Amount	Loan/ Total Loans	Amount	Loan/ Total Loans
(In thousands)									

Commercial real estate	**$**	**15,638**	**45%**	$	9,877	27%	$	11,317	32%	$	12,011	32%	$	12,166	39%
Commercial non real estate		**2,847**	**8**		5,007	8		4,496	9		4,368	9		4,529	11
Construction		**8,059**	**23**		4,559	18		4,842	14		3,584	16		3,384	10
Mortgage		**2,441**	**7**		2,351	19		980	14		812	13		845	11
Home equity		**2,550**	**7**		2,887	16		1,392	19		1,263	17		1,720	15
Consumer		**3,431**	**10**		4,044	12		3,845	12		3,569	13		4,560	14
Total	**$**	**34,966**	**100%**	$	28,725	100%	$	26,872	100%	$	25,607	100%	$	27,204	100%

The allowance for loan losses was also impacted by changes in the allocation of loan losses to various loan types. The total commercial loan allocation of allowance for loan losses increased $7.1 million during 2006, of which $2.7 million was primarily attributable to the growth in commercial loans and secondarily to credit migration within the commercial portfolio. GBC contributed the remaining $4.4 million of the increase. The allocation of allowance for loan losses for mortgage, home equity, and consumer loans decreased $0.9 million primarily due to a decrease in loans outstanding. In addition, a specific reserve for a residential investment property portfolio decreased $0.3 million in association with a 40 percent decrease in residential investment property loans outstanding. At December 31, 2006, the allocation associated with the inherent risk

in modeling the allowance for loan losses was $1.2 million, essentially unchanged from $1.3 million at December 31, 2005.

Management considers the allowance for loan losses adequate to cover inherent losses in First Charter 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 First Charter 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 for First Charter include the following: (i) changes in the amounts of loans outstanding, which are used to estimate current probable loan losses; (ii) current charge-offs and recoveries of loans; (iii) changes in impaired loan valuation allowances; (iv) changes in credit grades within the portfolio, which arise from a deterioration or an improvement in the performance of the borrower; (v) changes in loss percentages; and (vi) changes in the mix of types of loans. In addition, First Charter 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 these components of the allowance for loan losses results in the provision for loan losses. For a more detailed discussion of First Charter s process for estimating the allowance for loan losses, see Allowance for Loan Losses.

The provision for loan losses for 2006 was $5.3 million, compared to $9.3 million for 2005. 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 2006 totaled $3.3 million, or 0.11 percent of average portfolio loans, compared to $7.5 million, or 0.27 percent of average portfolio loans for 2005.

Even though the provision for loan loss decreased from the prior year, the allowance for loan losses as a percentage of portfolio loans increased, from 0.98 percent to 1.00 percent. In addition, of the $4.2 million reduction in net charge-offs, over $4.0 million was related to a reduction in gross charge-offs and less than $0.2 of the improvement was related to recoveries.

Market Risk Management

Asset-Liability Management and Interest Rate Risk

Interest rate risk is the exposure of earnings and capital to changes in interest rates. The objective of Asset-Liability Management (ALM) is to quantify and manage the change in interest rate risk associated with the Corporation s balance sheet. The management of the ALM program includes oversight from the Board of Director s Asset and Liability Committee (Board ALCO) and the Management Asset and Liability Committee (Management ALCO). Two primary metrics used in analyzing interest rate risk are earnings at risk (EAR) and economic value of equity (EVE). The Board of Directors has established limits on the EAR and EVE risk measures. Management ALCO, comprised of

select members of senior management, is charged with measuring performance relative to those limits and reporting First Charter Bank s performance to Board ALCO. Interest rate risk is measured and monitored through simulation modeling. The process is validated regularly by an independent third party.

Both the EAR and the EVE risk measures were within policy guidelines as of December 31, 2006.

Management considers EAR to be the best measure of short-term interest rate risk. This measure reflects the amount of net interest income that will be impacted by a change in interest rates over a 12- month time frame. A simulation model is used to run immediate and parallel changes in interest rates (rate shocks) from a base scenario using implied forward rates. At a minimum, rate shock scenarios are run at plus and minus 100, 200, and 300 basis points. From time to time, additional simulations are run to assess risk from changes in the slope of the yield curve. The simulation model projects the net interest income over the next 12 months for each scenario using consistent balance sheet growth projections and calculates the percentage change from the base scenario. Board ALCO has approved a policy limit for the change in EAR over a 12-month period of minus 10 percent to a plus or minus 200 basis point shock to interest rates. At December 31, 2006, the estimated EAR to a 200 basis point increase in rates was plus 4.7 percent while the estimated EAR to a 200 basis point decrease in rates was minus 5.6 percent. This compares with plus 3.7 percent and minus 2.7 percent, respectively, at December 31, 2005. The addition of GBC, with a more asset-sensitive balance sheet, contributed to the improvement in EAR in a rising-rate scenario and the increased risk in EAR in the declining-rate scenario. The asset-sensitive nature of the GBC balance sheet would benefit from an increase in rates but would be adversely affected if rates were to decline.

Management considers EVE to be the best measure of long-term interest rate risk. This measure reflects the amount of net equity that will be impacted by changes in interest rates. Through simulation modeling, First Charter estimates the economic value of assets and the economic value of liabilities. The difference between these two measures is the EVE. The EVE is calculated for a series of scenarios in which current rates are shocked up and down by 100, 200, and 300 basis points and compared to a base scenario using the current yield curve. Board ALCO has approved a policy limit for the percentage change in EVE of minus 15 percent to a plus or minus 200 basis point shock to interest rates. At December 31, 2006, the estimated EVE to a 200 basis point increase in rates was minus 7.4 percent, while the estimated EVE to a 200 basis point decrease in rates was plus 3.1 percent. At December 31, 2005, EVE risk was minus 10.3 percent and plus 6.4 percent, respectively. A change in the earning-asset mix, primarily a reduction in investment securities and mortgage loans as a percentage of earning assets, contributed to the reduction in EVE risk in the plus 200 basis point scenario.

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

During 2004, First Charter entered into a series of interest-rate swap agreements with a notional amount of $222 million. As a result of the balance sheet repositioning in 2005, First Charter terminated these interest-rate swap agreements. First Charter executed the balance sheet repositioning by also extinguishing $466 million of debt, some of which were hedged by the aforementioned swaps, and a similar amount of long-term, low-yield investment securities. The combination of these transactions was designed to move First Charter toward its targeted interest-rate risk and liquidity risk profile.

Table Sixteen summarizes the expected maturities and weighted-average effective yields and rates associated with certain of First Charter s significant non-trading financial instruments. Cash and cash equivalents, federal funds sold, and interest-bearing bank deposits are excluded from *Table Sixteen* as their respective carrying values approximate fair values. These financial instruments generally expose First Charter 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 First Charter to interest rate risk by requiring more or less reliance on alternative funding sources, such as long-term debt. The mortgage-backed securities are shown at their weighted-average expected life, obtained from an independent evaluation of the average remaining life of each security based on expected prepayment speeds of the underlying mortgages at December 31, 2006. These expected

maturities, weighted-average effective yields, and fair values will change if interest rates change. Demand deposits, money market accounts, and certain savings deposits are presented in the earliest maturity window because they have no stated maturity. For interest-rate risk analytical purposes, these non-maturity deposits are believed to have average lives longer than shown here.

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Table Sixteen
Market Risk

	Total	1 Year	2 Years	3 Years	4 Years	5 Years	Thereafter
				Expected Maturity (Dollars in thousands)			
				ASSETS			
Debt securities							
Fixed rate							
Cost	$ 740,773	$ 370,335	$ 207,627	$ 96,588	$ 28,446	$ 11,054	$ 26,723
Weighted-average effective yield	4.58%						
Fair value	$ 734,274						
Variable rate							
Cost	$ 175,416	27,380	27,437	27,527	4,072	5,177	83,823
Weighted-average effective yield	4.97%						
Fair value	$ 172,141						
Loans and loans held for sale							
Fixed rate							
Book value	$ 932,519	224,445	211,000	144,944	133,115	110,660	108,355
Weighted-average effective yield	6.76%						
Fair value	$ 921,675						
Variable rate							
Book value	$ 2,529,860	1,229,455	349,101	192,038	104,307	93,223	561,736
Weighted-average effective yield	7.47%						
Fair value	$ 2,503,207						
				LIABILITIES			
Deposits							
Fixed rate							
Book value	$ 1,640,634	1,477,109	134,307	15,198	7,309	5,923	788
Weighted-average effective yield	4.77%						
Fair value	$ 1,642,983						
Variable rate							
Book value	$ 1,152,519	291,914	291,652	291,137	127,740	70,470	79,606
Weighted-average effective yield	2.12%						
Fair value	$ 1,073,018						
Long-term borrowings							
Fixed rate							
Book value	$ 305,937	160,055	20,058	75,061	64	50,032	667
	5.62%						

Weighted-average effective yield				
Fair value	$	298,463		
Variable rate				
Book value	$	181,857	120,000	61,857
Weighted-average effective yield		5.70%		
Fair value	$	179,187		

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Table Seventeen presents the contractual maturity distribution and interest sensitivity of commercial and construction loan categories at December 31, 2006. This table excludes nonaccrual loans.

Table Seventeen
Maturity and Sensitivity to Changes in Interest Rates

	Commercial Real Estate	Commercial Non Real Estate	Construction	Total
	(In thousands)			
Fixed rate:				
1 year or less	$ 45,893	$ 25,751	$ 54,358	$ 126,002
1-5 years	220,041	54,689	21,685	296,415
After 5 years	119,425	52,803	11,936	184,164
Total fixed rate	385,359	133,243	87,979	606,581
Variable rate:				
1 year or less	246,208	107,695	567,279	921,182
1-5 years	351,645	52,031	126,306	529,982
After 5 years	49,401	8,574	11,251	69,226
Total variable rate	647,254	168,300	704,836	1,520,390
Total commercial and construction loans	$ 1,032,613	$ 301,543	$ 792,815	$ 2,126,971

Off-Balance-Sheet Risk

First Charter 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 First Charter. Included in loan commitments are commitments of $36.4 million to cover customer deposit account overdrafts should they occur. Standby letters of credit are conditional commitments issued by First Charter 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 First Charter 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 First Charter until the instrument is exercised. Refer to Note 20 of the consolidated financial statements for the year ended December 31, 2006, included with this proxy statement/prospectus, for further discussion of commitments. First Charter does not have any off-balance-sheet financing arrangements.

The following table presents aggregated information and expected maturities of commitments as of December 31, 2006.

Table Eighteen
Commitments

	Less Than 1 Year	1-3 Years	3-5 Years	Over 5 Years	Total
			(In thousands)		
Loan commitments	$ 596,479	$ 216,184	$ 30,914	$ 57,404	$ 900,981
Lines of credit	56,250	2,811	1,571	447,247	507,879
Standby letters of credit	20,567	6,100	4		26,671
Total commitments	$ 673,296	$ 225,095	$ 32,489	$ 504,651	$ 1,435,531

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Commitments to extend credit, including loan commitments, standby letters of credit, and commercial letters of credit do not necessarily represent future cash requirements, in that these commitments often expire without being drawn upon.

Liquidity Risk

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

Liquidity is managed at two levels. The first is the liquidity of First Charter. The second is the liquidity of First Charter Bank. The management of liquidity at both levels is essential, because First Charter and First Charter Bank have different funding needs and sources, and each are subject to certain regulatory guidelines and requirements.

The primary source of funding for First Charter includes dividends received from First Charter Bank and proceeds from the issuance of common stock. In addition, First Charter had commercial paper outstandings of $38.2 million at December 31, 2006. Primary uses of funds for First Charter include repayment of commercial paper, share repurchases, and dividends paid to shareholders. During 2005, First Charter issued trust preferred securities through specially formed trusts. These 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 First Charter Bank include customer deposits, wholesale deposits, other borrowings, loan repayments, and available-for-sale securities. First Charter Bank has access to federal funds lines from various banks and borrowings from the Federal Reserve discount window. In addition to these sources, First Charter Bank is a member of the FHLB, which provides access to FHLB lending sources. At December 31, 2006, First Charter Bank had an available line of credit with the FHLB totaling $1.3 billion with $796.9 million outstanding. At December 31, 2006, First Charter Bank and Gwinnett Bank also collectively had $188.2 million of federal funds lines with $41.5 million outstanding. Primary uses of funds include repayment of maturing obligations and growing the loan portfolio.

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

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First Charter has existing contractual obligations that will require payments in future periods. The following table presents, as of December 31, 2006, aggregated information about such payments to be made in future periods. First Charter generally anticipates refinancing or renewing, during 2007, contractual obligations that are due in less than one year.

Table Nineteen
Contractual Obligations

	Payments Due by Period				
	Less Than 1 Year	**1-3 Years**	**4-5 Years**	**Over 5 Years**	**Total**
			(In thousands)		
Other borrowings long-term debt	$ 160,000	$ 215,000	$	$ 112,794	$ 487,794
Operating lease obligations	3,371	6,586	5,484	31,674	47,115
Purchase obligations(1)	8,995	4,000	792		13,787
Equity method investees funding	1,845				1,845
Deposits(2)	3,085,395	149,468	13,232	33	3,248,128
Other obligations(3)	3,359	3,115	1,427	6,893	14,794
Total contractual obligations	$ 3,262,965	$ 378,169	$ 20,935	$ 151,394	$ 3,813,463

(1) Represents obligations under existing executory contracts.

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

(3) Represents obligations under employment, severance and retirement contracts and commitments to fund affordable housing investments.

Capital Management

First Charter 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 First Charter s shareholders while maintaining adequate regulatory capital ratios. As of December 31, 2006, some of First Charter s primary uses of capital included funding growth, asset acquisition, dividend payments, and common stock repurchases. However, due to the consummation of the transactions contemplated by this proxy statement/prospectus, First Charter does not anticipate making any additional stock repurchases as of August 16, 2007.

Select capital measures follow:

Table Twenty
Capital Measures

	December 31			
	2006		2005	
	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)			
Total equity/total assets				
First Charter Corporation	**$ 447,362**	**9.21%**	$ 323,595	7.64%
First Charter Bank	**371,459**	**8.45**	365,379	8.64
Gwinnett Banking Company	**102,189**	**22.02**		
Tangible equity/tangible assets(1)				
First Charter Corporation	**$ 362,294**	**7.59%**	$ 301,698	7.17%
First Charter Bank	**351,246**	**8.03**	343,482	8.17
Gwinnett Banking Company	**37,334**	**9.35**		

(1) The tangible equity ratio excludes goodwill and other intangible assets from both the numerator and the denominator.

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Shareholders equity at December 31, 2006, increased to $447.4 million, representing 9.2 percent of period-end assets, compared to $323.6 million, or 7.6 percent, of period-end assets at December 31, 2005. The $123.8 million increase was primarily due to net income of $47.4 million, $73.0 million of stock issued in connection with business combinations, and $25.2 million of stock issued under stock-based compensation plans and First Charter s dividend reinvestment plan during 2006. These increases were partially offset by cash dividends of $0.775 per common share, which resulted in cash dividend declarations of $24.4 million for 2006. In addition, the accumulated other comprehensive loss (after-tax unrealized losses on available-for-sale securities) decreased $5.3 million to $5.9 million at December 31, 2006, compared to $11.3 million at December 31, 2005.

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

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

During 2005, First Charter issued trust preferred securities through specially formed trusts in an aggregate amount of $60.0 million. These 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.

First Charter s and First Charter 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 First Charter s financial position and operations. At December 31, 2006, First Charter and its banking subsidiaries were classified as well capitalized under these regulatory frameworks.

The principal asset of First Charter is its investment in the Bank. Thus, First Charter derives its principal source of income through dividends from First Charter Bank. Certain regulatory and other requirements restrict the lending of funds by the subsidiary banks to First Charter and the amount of dividends which can be paid to First Charter. In addition, certain regulatory agencies may prohibit the payment of dividends by First Charter Bank if they determine that such payment would constitute an unsafe or unsound practice. See Note 23 of notes to consolidated financial statements for the year ended December 31, 2006, included with this proxy statement/prospectus, for additional discussion of these restrictions.

First Charter and First Charter Bank must comply with regulatory capital requirements established by the applicable federal regulatory agencies. Under the standards of the Federal Reserve Board, First Charter and First Charter Bank must maintain a minimum ratio of Tier I Capital (as defined) to total risk-weighted assets of 4.00 percent and a minimum ratio of Total Capital (as defined) to risk-weighted assets of 8.00 percent. Tier 1 capital includes common shareholders equity, trust preferred securities, minority interests and qualifying preferred stock, less goodwill and other adjustments. Total Capital is comprised of Tier I Capital plus certain adjustments, the largest of which for First Charter is the allowance for loan losses (up to 1.25 percent of risk-weighted assets).Total Capital must consist of at least 50 percent of Tier 1 Capital. Risk-weighted assets refer to the on- and off-balance sheet exposures of First Charter adjusted for their related risk levels using amounts set forth in Federal Reserve standards.

In addition to the aforementioned risk-based capital requirements, First Charter is subject to a leverage capital requirement, requiring a minimum ratio of Tier I Capital (as defined previously) to total adjusted average assets of 3.00 percent to 5.00 percent.

First Charter Bank also has similar regulatory capital requirements imposed by the Federal Reserve Board. See Note 23 of notes to consolidated financial statements for the year ended December 31, 2006, included with this proxy statement/prospectus, for additional discussion of these requirements.

At December 31, 2006, First Charter and First Charter Bank were in compliance with all existing capital requirements and were classified as well capitalized under regulatory capital guidelines. In the judgment of management, there have been no events or conditions since December 31, 2006, that would change the well capitalized status of First Charter or First Charter Bank. It is management s intention for both First Charter and First Charter Bank to continue to be well capitalized for the foreseeable future. The capital requirements of First Charter, First Charter Bank, and Gwinnett Bank are summarized in the table below as of December 31, 2006:

Table Twenty-One
Capital Ratios

	Actual		For Capital Adequacy Purposes		To be Well Capitalized	
	Amount	Ratio	Amount	Minimum Ratio	Amount	Minimum Ratio
			(Dollars in thousands)			
Leverage						
First Charter Corporation	**$ 428,136**	**9.32%**	**$ 183,678**	**4.00%**	**None**	**None**
First Charter Bank	**362,970**	**8.36**	**173,591**	**4.00**	**$ 216,988**	**5.00%**
Gwinnett Banking Company	**37,049**	**9.75**	**15,192**	**4.00**	**18,991**	**5.00**
Tier I Capital						
First Charter Corporation	**$ 428,136**	**10.49%**	**$ 163,299**	**4.00%**	**None**	**None**
First Charter Bank	**362,970**	**9.99**	**145,275**	**4.00**	**$ 217,913**	**6.00%**
Gwinnett Banking Company	**37,049**	**10.38**	**14,280**	**4.00**	**21,420**	**6.00**
Total Risk-Based Capital						
First Charter Corporation	**$ 463,268**	**11.35%**	**$ 326,598**	**8.00%**	**None**	**None**
First Charter Bank	**393,664**	**10.84**	**290,550**	**8.00**	**$ 363,188**	**10.00%**
Gwinnett Banking Company	**41,321**	**11.57**	**28,560**	**8.00**	**35,700**	**10.00**

Tier 1 capital consists of total equity plus qualifying capital securities and minority interests, less unrealized gains and losses accumulated in other comprehensive income, certain intangible assets, and adjustments related to the valuation of servicing assets and certain equity investments in nonfinancial companies (principal investments).

The leverage ratio reflects Tier 1 capital divided by average total assets for the period. Average assets used in the calculation exclude certain intangible and servicing assets.

Total risk-based capital is comprised of Tier 1 capital plus qualifying subordinated debt and allowance for loan losses and a portion of unrealized gains on certain equity securities.

Both the Tier 1 and the total risk-based capital ratios are computed by dividing the respective capital amounts by risk-weighted assets, as defined.

Earnings Performance For The Year Ended December 31, 2005 Compared To The Year Ended December 31, 2004

The following discussion and analysis provides a comparison or First Charter s results of operations for 2005 and 2004. This discussion should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2006 and included with this proxy statement/prospectus. In addition, *Table One* contains financial data to supplement this discussion.

Overview

Net income amounted to $25.3 million, or $0.82 per diluted share, for the year ended December 31, 2005, a decrease from net income of $42.4 million, or $1.40 per diluted share, for the year ended December 31, 2004. In the fourth quarter of 2005, First Charter incurred an approximate $20.0 million after-tax charge resulting from a series of balance sheet initiatives, which included the sale of securities and the extinguishment

of debt and termination of interest-rate swaps. The return on average assets and return on average equity was 0.56 percent and 7.9 percent in 2005, respectively, compared to 0.98 percent and 14.1 percent in 2004, respectively.

Net Interest Income

For 2005, net interest income totaled $124.9 million, an increase of 2 percent from net interest income of $123.0 million for 2004. This increase was primarily due to a $432.6 million increase in average loan balances, an increase in the proportion of noninterest-bearing deposits to the composition of funding sources and to a lesser extent the balance sheet repositioning which occurred in late October 2005. This was partially offset by higher rates paid on interest-bearing liabilities relative to increases in asset yields.

The net interest margin decreased 9 basis points to 3.05 percent in 2005, compared to 3.14 percent in 2004. The net interest margin was negatively impacted by a 91 basis point increase in the cost of interest-bearing liabilities. Partially offsetting this increase was a 72 basis point increase in earning-asset yields compared to 2004. Since the balance sheet repositioning occurred in late October 2005, the benefit to the net interest margin for the year was minimal.

Provision for Loan Losses

The provision for loan losses for 2005 was $9.3 million, compared to $8.4 million for 2004. The increase in the provision for loan losses was primarily attributable to the inherent risk associated with increased lending. The provision for loan losses was also impacted by a $0.9 million increase in net charge-offs, compared to 2004.

Net charge-offs for 2005 were $7.5 million, or 0.27 percent of average portfolio loans, compared to $6.6 million, or 0.28 percent of average portfolio loans, for 2004. The increase in charge-offs was primarily due to a decrease in recoveries.

Noninterest Income

Noninterest income from continuing operations decreased $10.3 million in 2005, or 18.1 percent, to $46.7 million, compared to $57.0 million in 2004.

Deposit service charges increased $2.2 million in part due to checking account growth and increases in transaction volume. ATM and merchant income increased $1.5 million due primarily to growth in ATM and debit card fees as a result of increased transaction volume. Mortgage services income grew $1.1 million, compared to 2004 as First Charter decided to sell a greater portion of its mortgage loan production in 2005. Insurance services revenue increased $1.0 million due, in part, to a purchased insurance agency in the fourth quarter of 2004. First Charter incurred approximately $0.3 million in losses in its venture capital portfolio in 2005, similar to the losses incurred in 2004.

Additional noninterest income items included securities losses of $16.7 million recognized during 2005 resulting from the balance sheet repositioning, compared to gains of $2.4 million in 2004 and a $0.3 million gain was recognized on the sale of one financial center s deposits and loans during 2004. No similar sale was recognized during 2005. In addition, BOLI revenue was impacted by a gain recognized as a result of a payment on claims of $0.9 million recognized in the second quarter of 2005, versus no claims received during 2004. Property sale gains of $1.9 million were recognized during 2005 from the sale of a branch facility and a sale-leaseback transaction involving a bank financial center. During 2004, $0.8 million in property sale gains were recognized.

Noninterest Expense

Noninterest expense from continuing operations totaled $128.0 million for 2005, compared to $107.5 million for 2004. Salaries and employee benefits increased due to additional costs associated with additional personnel, extended service hours, increased commission-based compensation, and higher medical costs. Part of the increase in medical costs was related to an acceleration of health insurance claims from First Charter s

third-party benefits administrator in connection with the transition to a new administrator in 2006. Data processing expenses increased $1.3 million due to increased debit card and software maintenance expense. Occupancy and equipment expense, excluding the fixed-asset correction (discussed below), increased $1.0 million as the result of additional financial center lease and depreciation expense. Marketing expense increased $0.3 million due to back state sales and use taxes primarily related to direct mail and consulting services over the past three years. These increases were partially offset by a $1.3 million decrease in professional fees primarily due to lower accounting, attorney, and other consulting fees.

Additional noninterest expense items in 2005 included a $7.8 million charge to terminate derivative transactions, a $6.9 million charge due to the early extinguishment of debt, $1.1 million expense associated with a legacy employee benefit plan, and a $1.0 million expense associated with the former Chief Financial Officer s retirement. In addition, First Charter recorded a $1.4 million reduction in occupancy and equipment expense due to a correction related to First Charter s fixed asset records.

The efficiency ratio decreased to 59.4 percent for 2005, compared to 59.8 percent for 2004. The calculation of the efficiency ratio excludes the impact of securities sales in both years and the charges related to the balance sheet repositioning in 2005.

Income Tax Expense

Income tax expense from continuing operations for 2005 amounted to $9.1 million for an effective tax rate of 26.6 percent, compared to $21.9 million for an effective tax rate of 34.1 percent for 2004. The decrease in income tax expense and the effective tax rate for 2005 was primarily attributable to the decrease in income relative to nontaxable adjustments. For further discussion, see Note 17 of the consolidated financial statements for the year ended December 31, 2006 included with this proxy statement/prospectus.

Management s Discussion And Analysis For The Nine Months Ended September 30, 2007 Compared To The Nine Months Ended September 30, 2006

Financial Summary

First Charter s third quarter 2007 net income was $11.1 million, a 12.7 percent decrease, compared to $12.7 million for the third quarter of 2006. On a per share basis, net income was $0.32 per diluted share, compared to $0.40 per diluted share for the third quarter of 2006.

Total revenue on a tax-equivalent basis increased 11.4 percent to $56.3 million, compared to $50.5 million in the third quarter of 2006. Return on average tangible equity was 12.24 percent and return on average assets was 0.91 percent, compared to 15.98 percent and 1.16 percent, respectively, a year ago.

The financial results for 2007 include the financial performance and the effect of additional outstanding shares from the acquisition of GBC Bancorp, Inc., compared with two months of results in the 2006 fourth quarter and no impact for the nine months ended September 30, 2006.

For the nine months ended September 30, 2007 net income was $32.4 million, an 8.5 percent decrease, compared to $35.4 million from the same period a year ago. On a per share basis, net income was $0.93 per diluted share for the nine months ended September 30, 2007, compared to $1.13 per diluted share for the nine months ended September 30, 2006.

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The table below presents First Charter s selected financial data by quarter:

Table Twenty-Two
Selected Financial Data by Quarter

	Three Months Ended				
	September 30 2007	June 30 2007	March 31 2007	December 31 2006	September 30 2006
	(Dollars in thousands, except share and per share amounts)				
Income statement					
Interest income	$ 78,727	$ 78,291	$ 77,214	$ 74,456	$ 67,085
Interest expense	41,496	40,747	40,479	38,441	34,127
Net interest income	37,231	37,544	36,735	36,015	32,958
Provision for loan losses	3,311	9,124	1,366	1,486	1,405
Noninterest income	18,427	20,141	19,566	17,388	17,007
Noninterest expense	35,556	35,207	35,920	33,853	29,655
Income from continuing operations before income tax expense	16,791	13,354	19,015	18,064	18,905
Income tax expense	5,724	4,404	6,659	5,962	6,223
Income from continuing operations, net of tax	11,067	8,950	12,356	12,102	12,682
Discontinued operations:					
Loss from discontinued operations				(162)	
Gain on sale				962	
Income tax expense				887	
Loss from discontinued operations, net of tax				(87)	
Net income	$ 11,067	$ 8,950	$ 12,356	$ 12,015	$ 12,682
Per common share					
Basic earnings per share					
Income from continuing operations, net of tax	$ 0.32	$ 0.26	$ 0.36	$ 0.36	$ 0.41
Net income	0.32	0.26	0.36	0.36	0.41
Diluted earnings per share					
Income from continuing operations, net of tax	0.32	0.26	0.35	0.36	0.40
Net income	0.32	0.26	0.35	0.36	0.40
Average shares					

Basic	34,423,296	34,697,944	34,770,106	33,268,542	31,056,059
Diluted	34,795,515	34,986,662	35,084,640	33,583,617	31,426,563
Dividends declared	0.195	0.195	0.195	0.195	0.195
Period-end book value	13.16	12.85	12.97	12.81	11.20
Performance ratios					
Return on average equity(1)	9.72%	7.86%	11.09%	11.69%	14.76%
Return on average assets(1)	0.91	0.74	1.03	1.02	1.16
Net yield on earning assets(1)	3.39	3.42	3.38	3.40	3.33
Average portfolio loans to average deposits	109.37	109.50	107.98	105.88	103.37
Average equity to average assets	9.33	9.37	9.28	8.75	7.86
Efficiency ratio(2)	63.2	60.4	63.1	62.6	52.6
Selected period-end balances					
Portfolio loans, net	$ 3,434,389	$ 3,509,047	$ 3,494,015	$ 3,450,087	$ 3,061,864
Loans held for sale	10,362	11,471	13,691	12,292	10,923
Allowance for loan losses	43,017	44,790	35,854	34,966	29,919
Securities available for sale	907,608	898,528	897,762	906,415	899,120
Assets	4,839,693	4,916,721	4,884,495	4,856,717	4,382,507
Deposits	3,208,026	3,230,346	3,321,366	3,248,128	2,954,854
Other borrowings	1,113,332	1,176,758	1,044,229	1,098,698	1,031,798
Total liabilities	4,382,205	4,470,893	4,429,123	4,409,355	4,033,069
Shareholders equity	457,488	445,828	455,372	447,362	349,438
Selected average balances					
Portfolio loans	3,514,699	3,532,713	3,510,437	3,336,563	3,070,286
Loans held for sale	9,345	11,127	11,431	10,757	8,792
Securities available for sale, at cost	914,569	914,606	926,970	924,773	923,293
Earning assets	4,445,923	4,467,031	4,463,161	4,284,735	4,013,745
Assets	4,846,399	4,874,742	4,871,083	4,664,431	4,336,270
Deposits	3,213,507	3,226,308	3,251,137	3,151,120	2,970,047
Other borrowings	1,124,021	1,131,599	1,113,191	1,054,550	984,504
Shareholders equity	451,946	456,634	451,835	407,929	340,986

(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, net. Excludes the results of discontinued operations.

Critical Accounting Estimates and Policies

As previously disclosed, First Charter has recorded a provision for loan losses related to Penland. First Charter continues to evaluate the Penland lot loan portfolio. Subsequent developments related to the Penland lot loans may have a significant impact on the provision for loan losses.

For more information on First Charter s critical accounting policies, refer to First Charter s financial statements for the year ended December 31, 2006 included with this proxy statement/prospectus.

Earnings Performance

Net Interest Income and Margin

An analysis of First Charter s net interest income on a taxable-equivalent basis and average balance sheets for the three and nine months ended September 30, 2007 and 2006 is presented in *Table Twenty-Three* and *Table Twenty-Four*. Net interest income on a taxable-equivalent basis is a non-GAAP 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 nine months ended September 30, 2007 and 2006 are analyzed in *Table Twenty-Five* and *Table Twenty-Six*. Except as noted, the discussion below is based on net interest income computed under accounting principles generally accepted in the United States of America.

Net interest income increased to $37.2 million, representing a $4.3 million, or 13.0 percent, increase over the third quarter of 2006. The net interest margin (taxable-equivalent net interest income divided by average earning assets) increased six basis points to 3.39 percent in the third quarter of 2007 from 3.33 percent in the third quarter of 2006. Compared to the second quarter of 2007, net interest income decreased $0.3 million, or 3.5 percent annualized, and the net interest margin declined three basis points from 3.42 percent. The primary driver of the margin pressure on a linked-quarter basis was due to rising costs for interest bearing deposits.

Compared to the third quarter of 2006, earning-asset yields increased 39 basis points to 7.09 percent. This increase was driven by several factors. First, loan yields increased 24 basis points to 7.59 percent. Second, securities yields increased 59 basis points to 5.15 percent. Third, the mix of higher-yielding (loan) assets improved as First Charter continues to focus on generating higher yielding commercial loans, partially funded by a run-off in its lower-yielding mortgage loan portfolio. Lastly, the percentage of investment securities average balances (which, typically, have lower yields than loans) to total earning-asset average balances, was reduced from 23.0 percent in the third quarter of 2006 to 20.6 percent in the third quarter of 2007.

On the liability side of the balance sheet, the cost of interest-bearing liabilities increased 39 basis points to 4.24 percent, compared to the third quarter of 2006. This increase was comprised of a 40 basis point increase in interest-bearing deposit costs to 3.87 percent, while other borrowing costs increased 31 basis points to 5.14 percent. During 2006, the Federal Reserve raised the Fed Funds rate by 100 basis points. In September 2007, the Federal Reserve lowered the Fed Funds rate by 50 basis points. Other borrowings average balances increased from 28.0 percent in the third quarter of 2006 to 29.0 percent of total interest-bearing liabilities average balances in the third quarter of 2007.

For the nine months ended September 30, 2007, net interest income increased to $111.5 million, representing a $13.8 million, or 14.1 percent, increase from the same period in 2006. The net interest margin increased four basis points to 3.40 percent for the nine months ended September 30, 2007, compared to 3.36 percent in the same 2006

period. As discussed previously, the improvements in the margin stemmed from continued disciplined pricing of loans and deposits and a greater concentration of higher-yielding commercial loans relative to total assets.

Compared to the nine months ended September 30, 2006, earning-asset yields increased 58 basis points to 7.08 percent. This increase was driven by two factors. First, loan yields increased 46 basis points to 7.61 percent and securities yields increased 64 basis points to 5.06 percent. Second, as discussed above, the mix of higher-yielding (loan) assets improved as a result of the GBC acquisition and a smaller percentage of lower-yielding mortgage and consumer loans. The percentage of investment securities average balances

(which, typically, have lower yields than loans) to total earning-asset average balances, was reduced from 23.3 percent for the nine months ended September 20, 2006 to 20.6 percent for the nine months ended September 30, 2007.

The cost of interest-bearing liabilities increased 63 basis points, compared to the nine months ended September 30, 2006. This was comprised of a 69 basis point increase in interest-bearing deposit costs to 3.84 percent, while other borrowing costs increased 55 basis points to 5.11 percent. During 2006, the Federal Reserve raised the Fed Funds rate by 100 basis points. The Federal Reserve lowered the rate by 50 basis points in September 2007. Also, as a result of deposit growth, the percentage of higher-cost, other borrowings average balances was reduced from 30.2 percent for the nine months ended September 30, 2006 to 28.8 percent of total interest-bearing liabilities average balances for the nine months ended September 30, 2007.

Compared to the second quarter of 2007, earning-asset yields increased one basis point to 7.09, driven by a nine basis point increase in securities yields. The cost of interest bearing liabilities increased five basis points to 4.24 percent. Deposit expense and borrowing costs increased five and four basis points, respectively, causing the increase.

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Interest income and yields for earning-asset average balances, interest expense and rates paid on interest-bearing liability average balances, and the net interest margin for the three months ended September 30, 2007 and 2006 follow:

Table Twenty-Three
Average Balances and Net Interest Income Analysis

	Three Months Ended September 30					
	2007			2006		
	Daily Average Balance	Interest Income/ Expense	Average Yield/Rate Paid(5)	Daily Average Balance	Interest Income/ Expense	Average Yield/Rate Paid(5)
	(Dollars in thousands)					
Assets						
Earning assets						
Loans and loans held for sale(1)(2)(3)(4)	$ 3,524,044	$ 67,454	7.59%	$ 3,079,078	$ 56,958	7.35%
Securities taxable(4)	822,124	10,420	5.03	826,435	9,079	4.36
Securities tax-exempt	92,446	1,368	5.92	96,858	1,449	5.98
Federal funds sold	2,699	36	5.22	6,711	87	5.14
Interest-bearing bank deposits	4,611	52	4.44	4,663	61	5.18
Total earning assets	4,445,924	$ 79,330	7.09%	4,013,745	$ 67,634	6.70%
Cash and due from banks	80,960			75,391		
Other assets	319,515			247,134		
Total assets	$ 4,846,399			$ 4,336,270		
Liabilities and shareholders equity						
Interest-bearing liabilities						
Demand deposits	$ 416,873	$ 1,374	1.31%	$ 372,696	$ 877	0.93%
Money market accounts	622,754	5,647	3.60	599,952	5,048	3.34
Savings deposits	110,378	59	0.21	116,866	63	0.21
Certificates of deposit	1,608,471	19,853	4.90	1,439,204	16,143	4.45
Retail other borrowings	92,082	689	2.97	84,640	413	1.94
Wholesale other borrowings	1,031,939	13,874	5.33	899,864	11,583	5.11
Total interest-bearing liabilities	3,882,497	41,496	4.24%	3,513,222	34,127	3.85%
Noninterest-bearing deposits	455,031			441,329		
Other liabilities	56,925			40,733		
Shareholders equity	451,946			340,986		
Total liabilities and shareholders equity	$ 4,846,399			$ 4,336,270		

Net interest spread		2.85%		2.85%
Contribution of noninterest bearing sources		0.54		0.48
Net interest income/ yield on earning assets	$ 37,834	3.39%	$ 33,507	3.33%

(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 $1,140 and $654 for the three months ended September 30, 2007 and 2006, respectively.

(4) Yields on tax-exempt securities and loans are stated on a taxable-equivalent basis, assuming a Federal tax rate of 35 percent and applicable state taxes for 2007 and 2006. The adjustments made to convert to a taxable-equivalent basis were $598 and $549 for the three months ended September 30, 2007 and 2006, respectively.

(5) Annualized.

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Interest income and yields for earning-asset average balances, interest expense and rates paid on interest-bearing liability average balances, and the net interest margin for the nine months ended September 30, 2007 and 2006 follow:

Table Twenty-Four
Average Balances and Net Interest Income Analysis

	Nine Months Ended September 30					
	2007			2006		
	Daily Average Balance	Interest Income/ Expense	Average Yield/Rate Paid(5)	Daily Average Balance	Interest Income/ Expense	Average Yield/Rate Paid(5)
	(Dollars in thousands)					
Assets						
Earning assets						
Loans and loans held for sale(1)(2)(3)(4)	$ 3,529,926	$ 200,936	7.61%	$ 3,019,088	$ 161,431	7.15%
Securities taxable(4)	822,504	30,499	4.96	818,956	25,920	4.23
Securities tax-exempt	96,166	4,287	5.94	101,418	4,513	5.93
Federal funds sold	5,160	213	5.53	4,328	160	4.94
Interest-bearing bank deposits	4,887	162	4.44	5,116	160	4.18
Total earning assets	4,458,643	$ 236,097	7.08%	3,948,906	$ 192,184	6.50%
Cash and due from banks	80,400			83,359		
Other assets	324,940			239,064		
Total assets	$ 4,863,983			$ 4,271,329		
Liabilities and shareholders equity						
Interest-bearing liabilities						
Demand deposits	$ 410,051	$ 3,598	1.17%	$ 365,401	$ 1,970	0.72%
Money market accounts	624,470	16,485	3.53	578,942	13,356	3.08
Savings deposits	112,664	188	0.22	119,352	192	0.22
Certificates of deposit	1,629,682	59,566	4.89	1,358,177	41,518	4.09
Retail other borrowings	92,985	2,126	3.06	118,628	2,190	2.47
Wholesale other borrowings	1,029,991	40,759	5.29	928,723	33,552	4.83
Total interest-bearing liabilities	3,899,843	122,722	4.21%	3,469,223	92,778	3.58%
Noninterest-bearing deposits	453,312			427,429		
Other liabilities	57,356			41,315		
Shareholders equity	453,472			333,362		
Total liabilities and shareholders equity	$ 4,863,983			$ 4,271,329		
Net interest spread			2.87%			2.92%

Contribution of noninterest bearing sources		0.53		0.44
Net interest income/ yield on earning assets	$ 113,375	3.40%	$ 99,406	3.36%

(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 $2,999 and $2,100 for the nine months ended September 30, 2007 and 2006, respectively.

(4) Yields on tax-exempt securities and loans are stated on a taxable-equivalent basis, assuming a Federal tax rate of 35 percent and applicable state taxes for 2007 and 2006. The adjustments made to convert to a taxable-equivalent basis were $1,860 and $1,711 for the nine months ended September 30, 2007 and 2006, respectively.

(5) Annualized.

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The following tables show changes in tax-equivalent interest income, interest expense, and tax-equivalent net interest income arising from rate and volume changes for major categories of earning assets and interest-bearing liabilities. The change in interest not solely due to changes in volume or rate has been allocated in proportion to the absolute dollar amounts of the change in each.

Table Twenty-Five
Volume and Rate Variance Analysis

	Three Months Ended September 30 2007 vs 2006		
	Due to Change in		Net
	Volume	Rate	Change
	(In thousands)		
Increase (decrease) in tax-equivalent interest income			
Loans and loans held for sale(1)	**$ 8,462**	$ 2,034	$ 10,496
Securities taxable(1)	**(48)**	1,389	1,341
Securities tax-exempt	**(66)**	(15)	(81)
Federal funds sold	**(53)**	2	(51)
Interest-bearing bank deposits	**(1)**	(8)	(9)
Total	**$ 8,294**	$ 3,402	$ 11,696
Increase (decrease) in interest expense			
Deposits:			
Demand	$ **113**	$ 384	$ 497
Money market	**197**	402	599
Savings	**(3)**	(1)	(4)
Certificates of deposit	**2,001**	1,709	3,710
Retail other borrowings	**39**	237	276
Wholesale other borrowings	**1,758**	533	2,291
Total	$ **4,105**	$ 3,264	$ 7,369
Increase in tax-equivalent net interest income			$ 4,327

(1) Income on tax-exempt securities and loans are stated on a taxable-equivalent basis. Refer to *Table Twenty-Three* for further details.

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Changes in net interest income for the nine months ended September 30, 2007 and 2006 are as follows:

Table Twenty-Six
Volume and Rate Variance Analysis

	Three Months Ended September 30 2007 vs 2006		
	Due to Change in		Net
	Volume	Rate	Change
		(In thousands)	
Increase (decrease) in tax-equivalent interest income			
Loans and loans held for sale(1)	**$ 28,592**	$ 10,913	$ 39,505
Securities taxable(1)	**113**	4,466	4,579
Securities tax-exempt	**(234)**	8	(226)
Federal funds sold	**33**	20	53
Interest-bearing bank deposits	**(8)**	10	2
Total	**$ 28,496**	$ 15,417	$ 43,913
Increase (decrease) in interest expense			
Deposits:			
Demand	**$ 265**	$ 1,363	$ 1,628
Money market	**1,104**	2,025	3,129
Savings	**(11)**	7	(4)
Certificates of deposit	**9,120**	8,928	18,048
Retail other borrowings	**(527)**	463	(64)
Wholesale other borrowings	**3,845**	3,362	7,207
Total	**$ 13,796**	$ 16,148	$ 29,944
Increase in tax-equivalent net interest income			$ 13,969

(1) Income on tax-exempt securities and loans are stated on a taxable-equivalent basis. Refer to *Table Twenty-Four* for further details.

Noninterest Income

The major components of noninterest income are derived from service charges on deposit accounts, ATM, debit, and merchant fees, and mortgage, brokerage, insurance, and wealth management revenue. In addition, First Charter realizes gains and losses on securities, equity investments, Small Business Administration loan sales, bank-owned property sales, and income from its BOLI policies.

Historical noninterest income and expense amounts have been restated to reflect the effect of reporting the previously announced sale of Southeastern Employee Benefits Services (SEBS) in the fourth quarter of 2006 as discontinued operations and to reflect the implementation of SAB 108 at year-end 2006.

Details of noninterest income follow for the three months ended September 30, 2007 and 2006:

Table Twenty-Seven
Noninterest Income

	Three Months Ended September 30		Increase/(Decrease)	
	2007	2006	Amount	Percent
	(In thousands)			
Service charges on deposits	$ 7,754	$ 7,353	$ 401	5.5%
ATM, debit, and merchant fees	2,580	2,182	398	18.2
Wealth management	925	729	196	26.9
Equity method investment gains, net		3,415	(3,415)	(100.0)
Mortgage services	859	784	75	9.6
Gain on sale of Small Business Administration loans	426		426	
Gain on sale of deposits and loans		2,825	(2,825)	(100.0)
Brokerage services	1,044	847	197	23.3
Insurance services	3,048	2,974	74	2.5
Bank owned life insurance	1,160	722	438	60.7
Property sale gains, net	59	408	(349)	(85.5)
Securities losses, net	(48)	(5,860)	5,812	(99.2)
Other	620	628	(8)	(1.3)
Noninterest income from continuing operations	18,427	17,007	1,420	8.3
Noninterest income from discontinued operations		759	(759)	(100.0)
Total noninterest income	$ 18,427	$ 17,766	$ 661	3.7%

Selected items included in noninterest income for the three months ended September 30, 2007 and 2006 follow. These items are considered non-core to the First Charter s operations.

Table Twenty-Eight
Selected Items Included in Noninterest Income

	Three Months Ended September 30	
	2007	2006
	(In thousands)	
Securities losses, net	**$ (48)**	$ (5,860)
Equity method investment gains, net		3,415
Gain on sale of deposits and loans		2,825
Property sale gains, net	**59**	408

Noninterest income from continuing operations for the third quarter of 2007 was $18.4 million, an increase of $1.4 million, or 8.3 percent, from $17.0 million in the third quarter of 2006. The primary factors for this increase include the following:

Revenue from deposit service charges was $0.4 million higher, principally reflecting a larger number of checking accounts.

ATM, debit, and merchant card revenue was $0.4 million higher, reflecting both a larger number of accounts and transactions.

Wealth management revenue was $0.2 million higher, primarily due to larger account balances being managed.

Equity method investment gains were $3.4 million higher in the 2006 third quarter. The returns on the equity method investments vary from period to period and income is recorded when earned. In the third quarter of 2006, First Charter recognized $3.4 million in SBIC/Venture Capital versus none in the same period of 2007.

Although First Charter originated SBA loans prior to the GBC acquisition, First Charter retained these loans. First Charter now sells certain of these loans. Gains on SBA loan sales were $0.4 million in the 2007 third quarter, compared to no sales in the same 2006 period.

The sale of two financial centers in the third quarter of 2006 generated gains of $2.8 million attributable to the sale of loans and deposits. There were no similar gains recognized during the third quarter of 2007.

Brokerage services revenue was $0.2 million higher in 2007 due to increased production from the addition of several financial consultants in the latter half of 2006.

The restructuring of $21.5 million of BOLI in mid-2006, the purchase of $10.0 million in new coverage, and the addition of $5.9 million of BOLI from GBC led to the $0.4 million increase in revenue during the three months ended September 30, 2007.

Property sale gains decreased $0.3 million from the third quarter of 2006. The previously mentioned sale of two financial centers resulted in property sale gains of $0.4 million during the third quarter of 2006.

First Charter recognized losses of $5.9 million on the sale of lower-yielding securities during the third quarter of 2006. During the three months ended September 30, 2007, First Charter recognized $48,000 of other-than-temporary impairment losses related to certain equity securities.

Details of noninterest income follow for the nine months ended September 30, 2007 and 2006:

Table Twenty-Nine
Noninterest Income

	Nine Months Ended September 30		Increase/(Decrease)	
	2007	2006	Amount	Percent
	(In thousands)			
Service charges on deposits	$ 23,086	$ 21,520	$ 1,566	7.3%
ATM, debit, and merchant fees	7,660	6,197	1,463	23.6
Wealth management	2,585	2,122	463	21.8
Equity method investment gains, net	1,805	3,971	(2,166)	(54.5)
Mortgage services	2,816	2,119	697	32.9
Gain on sale of Small Business Administration loans	935		935	
Gain on sale of deposits and loans		2,825	(2,825)	(100.0)
Brokerage services	3,132	2,250	882	39.2
Insurance services	10,104	10,206	(102)	(1.0)
Bank owned life insurance	3,461	2,399	1,062	44.3
Property sale gains, net	274	596	(322)	(54.0)
Securities losses, net	(59)	(5,828)	5,769	(99.0)
Other	2,335	1,913	422	22.1
Noninterest income from continuing operations	58,134	50,290	7,844	15.6
Noninterest income from discontinued operations		2,568	(2,568)	(100.0)
Total noninterest income	$ 58,134	$ 52,858	$ 5,276	10.0%

Selected items included in noninterest income for the nine months ended September 30, 2007 and 2006 follow. These items are considered non-core to First Charter s operations.

Table Thirty
Selected Items Included in Noninterest Income

	Nine Months Ended September 30	
	2007	2006
	(In thousands)	
Securities losses, net	$ (59)	$ (5,828)
Equity method investment gains, net	1,805	3,971
Gain on sale of deposits and loans		2,825

Property sale gains, net	274	596
Gains related to reinsurance arrangement	301	99

Noninterest income from continuing operations increased $7.8 million, or 15.6 percent, to $58.1 million for the nine months ended September 30, 2007 compared to the same period in 2006. The primary factors for this increase include the following:

Revenue from deposit service charges increased $1.6 million, principally reflecting a larger number of checking accounts.

ATM, debit and merchant card services revenue was $1.5 million higher due to both a larger number of accounts and transactions.

Mortgage services revenue increased $0.7 million due to increased originations and sales.

Although First Charter originated SBA loans prior to the GBC acquisition, First Charter retained these loans. First Charter now sells certain of these loans. Gains on SBA loan sales were $0.9 million in the nine months ended September 30, 2007, compared to no sales in the same 2006 period.

Brokerage service revenue increased $0.9 million due to increased production from the addition of several financial consultants in the latter half of 2006.

The previously mentioned restructuring of bank owned life insurance led to an increase of $1.1 million in revenue between the periods.

First Charter recognized losses of $5.9 million on the sale of lower-yielding securities during the third quarter of 2006 which is attributed to the decrease in security losses of $5.8 million. During the nine months ended September 30, 2007, First Charter recognized $48,000 of other-than-temporary impairment losses related to certain equity securities.

These revenue increases and gains were partially offset by $0.1 million lower insurance services revenue, primarily due to less contingency income recognized in the first nine months of 2007, compared with the first nine months of 2006.

Equity method investment gains were $2.2 million lower in the nine months ended September 30, 2007, versus the same period of 2006. The returns on the equity method investments vary from period to period and income is recorded when earned.

The sale of two financial centers in the third quarter of 2006 generated gains of $2.8 million attributable to the sale of loans and deposits. There were no similar gains recognized during the nine months ended September 30, 2007.

Property sale gains decreased $0.3 million from the third quarter of 2006. The previously mentioned sale of two financial centers resulted in property sale gains of $0.4 million during the third quarter of 2006.

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Noninterest Expense

Details of noninterest expense for the three months ended September 30, 2007 and 2006 follow:

Table Thirty-One
Noninterest Expense

	Three Months Ended September 30		Increase/(Decrease)	
	2007	2006	Amount	Percent
	(In thousands)			
Salaries and employee benefits	**$ 20,409**	$ 16,066	$ 4,343	27.0%
Occupancy and equipment	**4,801**	4,217	584	13.8
Data processing	**1,690**	1,469	221	15.0
Marketing	**846**	1,255	(409)	(32.6)
Postage and supplies	**1,014**	1,179	(165)	(14.0)
Professional services	**3,489**	2,440	1,049	43.0
Telecommunications	**549**	556	(7)	(1.3)
Amortization of intangibles	**288**	115	173	150.4
Foreclosed properties	**122**	21	101	481.0
Other	**2,348**	2,337	11	0.5
Noninterest expense from continuing operations	**35,556**	29,655	5,901	19.9
Noninterest expense from discontinued operations		759	(759)	(100.0)
Total noninterest expense	**$ 35,556**	$ 30,414	$ 5,142	16.9%
Full-time equivalent employees at September 30	**1,113**	1,092	21	1.9%
Efficiency ratio(1)	**63.2%**	52.6%	10.6%	20.2%

(1) Noninterest expense divided by the sum of taxable-equivalent net interest income plus noninterest income less securities gains (losses), net. Excludes the results of discontinued operations.

Selected items included in noninterest expense for the three months ended September 30, 2007 and 2006 follow:

Table Thirty-Two
Selected Items Included in Noninterest Expense

	Three Months Ended September 30	
	2007	2006
	(In thousands)	

Separation agreements	**$**	$ 342
Merger-related costs	**696**	

Noninterest expense from continuing operations for the 2007 third quarter was $35.6 million, a $5.9 million increase, compared to the third quarter of 2006. Of this increase, $4.3 million was attributable to salaries and employee benefits expense. Salaries and benefits expense increased in 2007 compared to 2006 primarily due to higher salaries and wages which were driven by an increased number of full-time equivalent employees as a result of the GBC acquisition, higher medical insurance costs and increased equity-based compensation. Professional fees increased $1.0 million primarily related to remediation efforts in connection with First Charter s internal control weaknesses as well as $0.6 million of additional professional expenses associated with the Fifth Third Merger. Occupancy and equipment expense increased $0.6 million primarily as a result of the GBC acquisition. These increases were partially offset by a $0.4 million and $0.2 million

decreases in marketing and postage and supplies expenses, respectively. In 2006, there were increased marketing efforts in the Raleigh market entry that have declined as First Charter has established a presence in the area.

Details of noninterest expense for the nine months ended September 30, 2007 and 2006 follow:

Table Thirty-Three
Noninterest Expense

	Nine Months Ended September 30		Increase/(Decrease)	
	2007	**2006**	**Amount**	**Percent**
	(In thousands)			
Salaries and employee benefits	**$ 59,572**	$ 49,609	$ 9,963	20.1%
Occupancy and equipment	**14,172**	13,748	424	3.1
Data processing	**4,972**	4,327	645	14.9
Marketing	**3,252**	3,739	(487)	(13.0)
Postage and supplies	**3,350**	3,643	(293)	(8.0)
Professional services	**10,256**	6,601	3,655	55.4
Telecommunications	**1,739**	1,632	107	6.6
Amortization of intangibles	**825**	324	501	154.6
Foreclosed properties	**501**	493	8	1.6
Other	**8,044**	6,968	1,076	15.4
Noninterest expense from continuing operations	**106,683**	91,084	15,599	17.1
Noninterest expense from discontinued operations		2,370	(2,370)	(100.0)
Total noninterest expense	**$ 106,683**	$ 93,454	$ 13,229	14.2%
Full-time equivalent employees at September 30	**1,113**	1,092	21	1.9%
Efficiency ratio(1)	**62.2%**	58.6%	3.6%	6.1%

(1) Noninterest expense divided by the sum of taxable-equivalent net interest income plus noninterest income less securities gains (losses), net. Excludes the results of discontinued operations.

Selected items included in noninterest expense for the nine months ended September 30, 2007 and 2006 follow:

Table Thirty-Four
Selected Items Included in Noninterest Expense

	Nine Months Ended September 30	
	2007	**2006**

	(In thousands)	
Separation agreements	**$ 241**	$ 447
GBC related executive retirement expense	**245**	
Reduction of incentive compensation	**(518)**	
Merger-related costs	**933**	

Noninterest expense from continuing operations for the first nine months of 2007 was $106.7 million, a $15.6 million increase over the same period of 2006. Of this increase, $10.0 million was attributable to salaries and employee benefits expense. Salaries and benefits expense increased in 2007 compared to 2006

primarily due to higher salaries and wages which were driven by an increased number of full-time equivalent employees as a result of the GBC acquisition, as well as normal salary increases, higher medical insurance costs, and offset partially by lower incentive compensation due to a reduction in earnings. Additionally, salaries and employee benefits expense included merger-related costs of $0.5 million, representing severance and other compensation-related bonuses for certain employees to remain with Gwinnett Bank for a period of transition following the acquisition as well as executive retirement expenses related to Gwinnett Bank. Professional Fees increased $3.7 million primarily related to remediation efforts in connection with First Charter s internal control weaknesses, additional costs related to First Charter s delayed filing of Form 10-K for the year-ended December 31, 2006, costs associated with the previously disclosed first quarter 2007 audit committee inquiry and $0.6 million of Fifth Third Merger related costs. Data processing expense increased $0.6 million on a year-over-year basis for the first nine months of 2007 due to increased transaction volume. Other noninterest expense increased $1.1 million between compared periods, principally consisting of increases in insurance, franchise tax, travel and other miscellaneous operational expense. These increases were partially offset by $0.5 million and $0.3 million decreases in marketing expense and postage and supplies expenses, respectively. In 2006, there were increased marketing efforts in the Raleigh market that have declined as First Charter has established a presence in the area.

Income Tax

Income tax expense for the three months ended September 30, 2007, was $5.7 million, for an effective tax rate of 34.1 percent, compared with $6.2 million, for an effective tax rate of 32.9 percent in the third quarter of 2006. For the nine months ended September 30, 2007, income tax expense was $16.8 million, for an effective tax rate of 34.2 percent, compared with $17.8 million, for an effective tax rate of 33.6 percent in the nine months ended September 30, 2006. The effective tax rate increased for the three and nine months ended September 30, 2007 as a result of new tax legislation discussed below and in Note 13 of the consolidated financial statements for the quarter ended September 30, 2007 included with this proxy statement/prospectus.

On July 31, 2007, the General Assembly of North Carolina passed House Bill 1473 which includes a provision that disallows the deduction of dividends paid by captive real estate investment trusts (REITs) for the purposes of determining North Carolina taxable income. First Charter, through its subsidiaries, participates in two entities classified as captive REITs from which First Charter has historically received dividends which resulted in certain tax benefits taken within First Charter s tax returns and consolidated financial statements.

As a result of this legislation, during the third quarter of 2007, First Charter recorded $1.0 million, net of reserve, of additional income tax expense as it eliminated the dividend received deduction previously recorded during 2007. This increased First Charter s effective tax rate for 2007, and it is expected to increase the effective tax rate for future periods. Additionally, tax expense was reduced by $0.4 million as a result of the expiration of the relevant Federal statute of limitations. The net impact of these two events was a $0.6 million increase to income tax expense for the three and nine months ended September 30, 2007.

First Charter is under examination by the North Carolina Department of Revenue for tax years 1999 through 2005 and is subject to examination for the subsequent tax year. First Charter is also under routine examination by the Internal Revenue Service for the 2004 tax year. First Charter s tax years prior to 2004 are no longer subject to examination by the Internal Revenue Service. For additional information regarding these examinations refer to Note 13 of the consolidated financial statements for the quarter ended September 30, 2007 included with this proxy statement/prospectus.

Balance Sheet Analysis

Securities Available for Sale

At September 30, 2007, securities available for sale were $907.6 million, compared to $906.4 million at December 31, 2006. Pretax unrealized net losses on securities available for sale were $6.9 million at September 30, 2007, compared to pretax unrealized net losses of $9.8 million at December 31, 2006. A decrease in market interest rates, the recognition of approximately $48,000 of losses during the third quarter of

2007, pay downs and maturities of existing maturities totaling $199.6 million, and the sale of $31.1 million of securities led to the reduction in the unrealized losses between December 31, 2006 and September 30, 2007.

During the first nine months of 2007, proceeds from the aforementioned maturities, along with the sales, pay downs, and calls were used to purchase $229.4 million of securities, principally mortgage-backed and U.S. government agency securities. The asset-backed securities purchased are collateralized debt obligations, representing securitizations of financial company capital securities and were purchased for portfolio risk diversification and their higher yields.

The following table shows the carrying value of (i) U.S. government agency obligations, (ii) mortgage-backed securities, (iii) state, county, and municipal obligations, (iv) asset-backed securities, and (v) equity securities, which are primarily comprised of Federal Reserve and Federal Home Loan Bank stock.

Table Thirty-Five
Investment Portfolio

	September 30 2007	December 31 2006
	(In thousands)	
U.S. government agency obligations	**$ 188,045**	$ 275,394
Mortgage-backed securities	**517,000**	412,020
State, county, and municipal obligations	**92,676**	102,602
Asset-backed securities	**55,941**	65,115
Equity securities	**53,946**	51,284
Total securities	**$ 907,608**	$ 906,415

Loan Portfolio

First Charter s loan portfolio at September 30, 2007, consisted of six major categories: Commercial Non Real Estate, Commercial Real Estate, Construction, Mortgage, Home Equity, and Consumer. Pricing is driven by quality, loan size, loan tenor, prepayment risk, First Charter s relationship with the customer, competition, and other factors. First Charter is primarily a secured lender in all of these loan categories. The terms of First Charter s loans are generally five years or less with the exception of home equity lines and residential mortgages, for which the terms can range out to 30 years. In addition, First Charter has a program in which it buys and sells portions of loans (primarily originated in the Southeastern region of the United States), both participations and syndications, from key strategic partner financial institutions with which First Charter has established relationships. This strategic partners portfolio includes commercial real estate, commercial non real estate, and construction loans. This program enables First Charter to diversify both its geographic risk and its total exposure risk. From time to time, First Charter also sources commercial real estate, commercial non real estate, construction, and consumer loans through correspondent relationships. As of September 30, 2007, First Charter s total loan portfolio included $311.0 million of loans originated through the strategic partners program and correspondent relationships.

Total portfolio loan average balances for the 2007 third quarter increased $444.4 million, or 14.5 percent, to $3.5 billion, compared to $3.1 billion for the 2006 third quarter. Included in the increase was approximately $337 million of total loans that were added as a result of the GBC acquisition during the fourth quarter of 2006. The

increase in average loan balances was offset by $8 million of loan balances that were included in the sale of two financial centers during the third quarter of 2006. Commercial loan growth drove the increase, rising $543 million, or 31.9 percent, of which $322 million were added as a result of the GBC acquisition. The remaining growth of $221 million, or 13.0 percent, was the result of commercial lending growth in the Charlotte and Raleigh markets.

Consumer loan average balances decreased $53 million and mortgage loan average balances decreased $45 million compared to the 2006 third quarter. The consumer loan balance decline was driven, primarily, by decreasing home equity balances as consumers continue to refinance first mortgages and pay out their higher

cost home equity loans. The decline in mortgage loan balances was due to normal loan amortization and First Charter s strategy of selling most of its new mortgage production into the secondary market. GBC had no residential mortgages on its balance sheet at the time of the acquisition.

At September 30, 2007, Raleigh-related loans totaled $171.4 million, representing a $37.6 million increase from $133.8 million at December 31, 2006.

As of September 30, 2007, Atlanta related loans totaled $331 million, representing a decline of $6 million, since First Charter s entry into the Atlanta market on November 1, 2006.

A summary of the composition of the loan portfolio follows:

Table Thirty-Six
Loan Portfolio Composition

	September 30 2007	Percent of Total Loans	December 31 2006	Percent of Total Loans
	(In thousands)			
Commercial real estate	**$ 1,057,357**	**30.4%**	$ 1,034,317	29.7%
Commercial non real estate	**306,243**	**8.8**	301,958	8.7
Construction	**854,208**	**24.6**	793,294	22.8
Mortgage	**584,223**	**16.8**	618,142	17.7
Consumer	**265,366**	**7.6**	289,493	8.3
Home equity	**410,009**	**11.8**	447,849	12.8
Total portfolio loans	**3,477,406**	**100.0%**	3,485,053	100.0%
Allowance for loan losses	**(43,017)**		(34,966)	
Portfolio loans, net	**$ 3,434,389**		$ 3,450,087	

Deposits

A summary of the composition of deposits follows:

Table Thirty-Seven
Deposits

	September 30 2007	December 31 2006
	(In thousands)	
Noninterest bearing demand	**$ 465,600**	$ 454,975
Interest bearing demand	**440,558**	420,774
Money market accounts	**611,134**	620,699

Savings deposits	**107,419**	111,047
Certificates of deposit	**1,583,315**	1,640,633
Total deposits	**$ 3,208,026**	$ 3,248,128

Deposits totaled $3.2 billion at September 30, 2007 and December 31, 2006. Compared to September 30, 2006, deposits increased by $253.2 million, as a result of overall growth in interest checking balances, combined with the addition of $357.3 million of deposits acquired in the fourth quarter 2006 acquisition of GBC, offset partially by a relatively large number of CDs that matured during the first nine months of 2007.

Deposit balances in Raleigh were $66.0 million at September 30, 2007, an increase of $34.2 million from $31.8 million at December 31, 2006.

Deposit growth, particularly low-cost transaction (or core) deposit growth (money market, demand, and savings accounts), continues to be an area of emphasis for First Charter. For the third quarter of 2007, core

deposit average balances increased $74.2 million, or 4.85 percent, compared to the third quarter of 2006. This includes the benefit of the GBC acquisition which included $106.5 million of core deposits and the impact of First Charter s sale of two financial centers in the third quarter of 2006 which involved the sale of $24 million of core deposits. The total core deposit increase was primarily driven by a $44 million, or 11.9 percent, increase in interest checking average balances, a $16 million, or 2.3 percent, increase in money market and savings average balances, and a $13.7 million, or 3.10 percent, increase in noninterest-bearing demand deposit average balances.

CD average balances for the third quarter of 2007 increased $169.3 million from the third quarter of 2006 and $25.9 million from the fourth quarter of 2006, but fell $23 million from the second quarter of 2007. Included in the year-over-year increase were $249 million of CD balances that were added to First Charter s portfolio during the fourth quarter of 2006 as a result of the GBC acquisition. CD growth year-over-year was additionally impacted by the sale of $14 million of CDs in conjunction with the previously mentioned financial center sale that occurred in the third quarter of 2006. The decline in CD balances from the second quarter of 2007 was primarily due to continued pricing discipline. A significant number of high-rate CDs matured over the past several quarters, largely comprised of public funds and legacy GBC customers who had no other relationships with First Charter. As of the end of the third quarter of 2007, a majority of the GBC CD portfolio has repriced or matured.

Other Borrowings

At September 30, 2007, First Charter Bank had federal funds back-up lines of credit totaling $348.0 million with $140.0 million outstanding, compared to similar lines of credit totaling $188.2 million with $41.5 million outstanding at December 31, 2006. Securities sold under agreements to repurchase represent short-term borrowings by First Charter Bank with maturities less than one year collateralized by a portion of First Charter s United States government or agency securities. Securities sold under agreements to repurchase totaled $94.6 million at September 30, 2007, compared to $160.2 million at December 31, 2006. These borrowings are an important source of funding to First Charter. Access to alternate short-term funding sources allows First Charter to meet funding needs without relying on increasing deposits on a short-term basis.

First Charter issues commercial paper as another source of short-term funding. It is purchased primarily by First Charter Bank s commercial deposit clients. Commercial paper outstanding at September 30, 2007 was $21.0 million, compared to $38.2 million at December 31, 2006.

Other short-term borrowings consist of the Federal Home Loan Bank (FHLB) borrowings with an original maturity of one year or less. FHLB borrowings are collateralized by securities from First Charter s investment portfolio, and a blanket lien on certain qualifying commercial and single-family loans held in First Charter s loan portfolio. At September 30, 2007, First Charter Bank had $290.0 million of short-term FHLB borrowings, compared to First Charter Bank s $371.0 million at December 31, 2006. First Charter, in its overall management of interest-rate risk, is opportunistic in evaluating alternative funding sources. While balancing the funding needs of First Charter, management considers the duration of available maturities, the relative attractiveness of funding costs, and the diversification of funding sources, among other factors, in order to maintain flexibility in the nature of deposits and borrowings First Charter holds at any given time.

At September 30, 2007, First Charter Bank had $505.9 million of long-term FHLB borrowings, compared to $425.9 million at December 31, 2006. In addition, First Charter had $61.9 million of outstanding subordinated debentures at September 30, 2007, and December 31, 2006.

First Charter formed First Charter Capital Trust I and First Charter Capital Trust II, in June 2005 and September 2005, respectively; both are wholly-owned business trusts. First Charter Capital Trust I and First Charter Capital Trust II issued $35.0 million and $25.0 million, respectively, of trust preferred securities that were sold to third parties. The

proceeds of the sale of the trust preferred securities were used to purchase subordinated debentures discussed above from First Charter, which are presented as long-term borrowings in the consolidated balance sheet and qualify for inclusion in Tier 1 capital for regulatory capital purposes, subject to certain limitations.

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Credit Risk Management

Loan Administration and Underwriting

As of September 30, 2007, First Charter had a legal lending limit of $69.1 million and a general target-lending limit of $10.0 million per relationship.

Periodically, First Charter finances consumer lot loans in association with developer lot loan programs. As previously disclosed, during the second quarter, First Charter Bank identified a large exposure to undeveloped lots in real estate development projects in Spruce Pine, NC. As a result of this finding, policies and procedures associated with participation in developer lot programs have been enhanced to mitigate potential concentration and construction risk. Enhancements include: 1) commercial underwriting of development projects prior to entering into lot programs to identify potential construction risks, 2) modification of the consumer loan application to include the collection of data for developer, subdivision, and development status of the financed lot in order to provide improved concentration reporting, 3) adjustments in policy to restrict consumer loan origination to borrowers located in First Charter s primary markets, and 4) strengthening internal controls to enhance First Charter s ability to identify fraud.

At September 30, 2007, the substantial majority of the total loan portfolio, including the commercial and real estate portfolio, represented loans to borrowers within the Metro regions of Charlotte and Raleigh, North Carolina and Atlanta, Georgia. The diverse economic base of these regions tends to provide a stable lending environment; however, an economic downturn in the Charlotte region, First Charter s primary market area, could adversely affect its business.

Previously, certain of First Charter s construction and real estate loans were originated through HomeBanc Corporation (HomeBanc). HomeBanc serviced the loans it originated on behalf of First Charter. On August 1, 2007, HomeBanc declared bankruptcy and, as a result, First Charter began servicing its loans that had been originated through HomeBanc. As of September 30, 2007, First Charter s balance of HomeBanc originated loans was $108.5 million.

Derivatives

First Charter enters into interest rate swap agreements or other derivative transactions as business conditions warrant. As of September 30, 2007, and December 31, 2006, First Charter had no interest rate swap agreements or other derivative transactions outstanding.

Nonperforming Assets

As of September 30, 2007, no loans were 90 days or more past due and still accruing interest.

A summary of nonperforming assets follow:

Table Thirty-Eight
Nonperforming Assets

	September 30 2007	June 30 2007	March 31 2007	December 31 2006	September 30 2006
			(In thousands)		
Nonaccrual loans	**$ 22,712**	$ 17,387	$ 10,943	$ 8,200	$ 7,090
Loans 90 days or more past due accruing interest					
Total nonperforming loans	**22,712**	17,387	10,943	8,200	7,090
Other real estate	**9,134**	2,726	6,330	6,477	5,601
Nonperforming assets	**$ 31,846**	$ 20,113	$ 17,273	$ 14,677	$ 12,691
Nonaccrual loans as a percentage of total portfolio loans	**0.65%**	0.49%	0.31%	0.24%	0.23%
Nonperforming assets as a percentage of:					
Total assets	**0.66**	0.41	0.35	0.30	0.29
Total portfolio loans and other real estate owned	**0.91**	0.57	0.49	0.42	0.41
Net charge-offs to average portfolio loans	**0.57**	0.02	0.06	0.08	0.13
Allowance for loan losses to portfolio loans	**1.24**	1.26	1.02	1.00	0.97
Allowance for loan losses to net charge-offs	**2.13x**	59.40x	18.50x	13.56x	7.50x
Allowance for loan losses to nonperforming loans	**1.89x**	2.58x	3.28x	4.26x	4.22x

Nonaccrual loans totaled $22.7 million, or 0.65 percent of total portfolio loans, at September 30, 2007, representing a $14.5 million increase from $8.2 million, or 0.24 percent of total portfolio loans at December 31, 2006, and a $15.6 million increase from $7.1 million, or 0.23 percent, of total portfolio loans at September 30, 2006. Nonperforming assets as a percentage of total loans and OREO increased to 0.91 percent at September 30, 2007, compared to 0.42 percent at December 31, 2006 and 0.41 percent at September 30, 2006.

As of September 30, 2007, $4.5 million of nonperforming loans were attributable to Penland. One commercial relationship was the principle contributor to the remaining increase with a nonaccrual loan balance of $6.5 million as of September 30, 2007.

Nonaccrual loans at September 30, 2007 were concentrated 19.8 percent in the Penland lot loans and 20.4 percent in loans originated in the Atlanta market. There were no other significant geographic concentrations. Nonaccrual loans primarily consisted of loans secured by real estate, including single-family residential and development construction

loans. Nonaccrual loans as a percentage of loans may increase or decrease as economic conditions change. Management takes current 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

Beginning January 1, 2007, First Charter began including consumer and residential mortgage loans with outstanding principal balances of $150,000 or greater in its computation of impaired loans calculated under SFAS 114. The application of this methodology conforms the consumer and residential mortgage loan analysis to First Charter s SFAS 114 analysis for commercial loans.

First Charter monitors its loss estimate percentage attributable to economic factors in its allowance for loan loss model. As a part of its quarterly assessment of the allowance for loan losses, First Charter reviews key local, regional and national economic information and assesses its impact on the allowance for loan losses. Given the recent trends in the national and local economic environment, including a slow-down in the national

and local housing markets and moderate increases in the unemployment rate, First Charter has increased its estimated loss percentages for economic factors for the nine months ended September 30, 2007.

During the quarter ended September 30, 2007, First Charter increased its allocation for operational risk factors due to the heightened potential employee attrition risks associated with the proposed merger with Fifth Third.

Changes in the allowance for loan losses follow:

Table Thirty-Nine
Allowance For Loan Losses

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
	(In thousands)			
Balance at beginning of period	**$ 44,790**	$ 29,520	$ 34,966	$ 28,725
Charge-offs				
Commercial real estate	**288**	151	427	486
Commercial non real estate	**19**	341	378	700
Construction	**121**		121	
Mortgage	**9**	83	77	104
Home equity	**44**	202	238	903
Consumer	**5,101**	530	5,674	1,478
Total charge-offs	**5,582**	1,307	6,915	3,671
Recoveries				
Commercial real estate	**1**		1	
Commercial non real estate	**380**	96	696	535
Mortgage	**1**	13	53	13
Home equity		1		1
Consumer	**116**	191	415	512
Total recoveries	**498**	301	1,165	1,061
Net charge-offs	**5,084**	1,006	5,750	2,610
Provision for loan losses	**3,311**	1,405	13,801	3,804
Balance at end of period	**$ 43,017**	$ 29,919	$ 43,017	$ 29,919
Average portfolio loans	**$ 3,514,699**	$ 3,070,286	$ 3,519,299	$ 3,010,654
Net charge-offs to average portfolio loans (annualized)	**0.57%**	0.13%	0.22%	0.12%
Allowance for loan losses to portfolio loans	**1.24**	0.97	1.24	0.97

The allowance for loan losses was $43.0 million, or 1.24 percent of portfolio loans, at September 30, 2007, compared to $29.9 million, or 0.97 percent of portfolio loans, at September 30, 2006. The allowance includes $4.0 million related to the Penland lot loans. Additionally, First Charter s increased commercial loans, a smaller concentration of lower risk home equity and mortgage loan balances, and First Charter s credit migration trends led to the higher allowance for loan loss ratio.

Management considers the allowance for loan losses adequate to cover inherent losses in First Charter 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 First Charter 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 First Charter include the following: (i) changes in the amounts of loans outstanding, which are used to estimate current probable loan losses; (ii) current charge-offs and recoveries of loans; (iii) changes in impaired loan valuation allowances; (iv) changes in credit grades within the portfolio, which arise from a deterioration or an improvement in the performance of the borrower; (v) changes in loss percentages; and (vi) changes in the mix of types of loans. In addition, First Charter 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. Changes in these factors provided approximately an additional $750,000 in the third quarter of 2007. 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 First Charter s process for estimating the allowance for loan losses, see Allowance for Loan Losses.

The provision for loan losses was $3.3 million for the 2007 third quarter, while net charge-offs were $5.1 million, or 0.57 percent of average portfolio loans. Net charge-offs for the three and nine months ended September 30, 2007 included $5.2 million related to the Penland residential loan portfolio. For the same year-ago period, the provision for loan losses was $1.4 million and net charge-offs were $1.0 million, or 0.13 percent of average portfolio loans. For the nine months ended September 30, 2007, the provision for loan losses was $13.8 million, while net charge-offs were $5.8 million, or 0.22 percent of average portfolio loans. For the nine months ended September 30, 2006, the provision for loan losses was $3.8 million, while net charge-offs were $2.6 million, or 0.12 percent of average portfolio loans.

Market Risk Management

Asset-Liability Management and Interest Rate Risk

Both the EAR and the EVE risk measures were within policy guidelines as of September 30, 2007, and December 31, 2006.

At September 30, 2007, the estimated EAR to a 200 basis point increase in rates was plus 3.0 percent while the estimated EAR to a 200 basis point decrease in rates was minus 5.8 percent. This compares with plus 4.7 percent and minus 5.6 percent, respectively, at December 31, 2006. A change in the earning asset and funding mix contributed to the change in the EAR measures from December 31, 2006.

At September 30, 2007, the estimated EVE to a 200 basis point increase in rates was minus 10.1 percent, while the estimated EVE to a 200 basis point decrease in rates was plus 1.4 percent. At December 31, 2006, EVE risk was minus 7.4 percent and plus 3.1 percent, respectively. Changes in market rates and prepayment expectations accounted for the majority of the change in the EVE measure from December 31, 2006.

Table Forty summarizes, as of September 30, 2007, the expected maturities and weighted average effective yields and rates associated with certain of First Charter s significant non-trading financial instruments. Cash and cash equivalents, federal funds sold, and interest-bearing bank deposits are excluded from *Table Forty* as their respective carrying values approximate fair value. These financial instruments generally expose First Charter 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 First Charter to interest rate risk by requiring more or less reliance on alternative funding sources, such as long-term debt. The mortgage-backed securities are shown at their weighted-average expected life, obtained from an independent evaluation of the average remaining life of each security based on expected prepayment speeds of the underlying mortgages at September 30, 2007. These expected maturities, weighted-average effective yields, and fair values would change if interest rates change. Expected maturities for indeterminate demand, money market and savings deposits are estimated based on historical average lives.