

FIRST CHARTER CORP /NC/

Form DEF 14A

March 06, 2003

SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-12

FIRST CHARTER CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11. table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
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 - (3) Filing Party:

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[FIRST CHARTER LETTERHEAD]

March 13, 2003

Dear Fellow Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of First Charter Corporation, which will be held at the First Charter Center at 10200 David Taylor Drive, Charlotte, North Carolina on April 22, 2003.

Our meeting will begin at 9:30 a.m. for our friends and shareholders. The business to be conducted at the Annual Meeting is described in the accompanying Notice of Annual Meeting and Proxy Statement, and I invite you to pay careful attention to both of these documents. In addition, attached to the back of the Proxy Statement is a copy of our Annual Report on Form 10-K for the year ended December 31, 2002.

It is important that your shares be represented and voted at the Annual Meeting. Whether or not you choose to attend, I urge you to sign, date, and promptly return the proxy card in the enclosed postage-paid envelope. You may also vote via the Internet or over the telephone. Instructions for those voting methods are listed on your proxy card.

For your convenience, our shareholders may listen to the Annual Meeting via the Internet by visiting our website at www.FirstCharter.com and following the link provided under our Investor Relations section. Replays of this Annual Meeting will be made available for 14 days following the Annual Meeting.

Thank you for your interest in First Charter. We look forward to your continued support throughout 2003.

Sincerely,

/s/ Lawrence M. Kimbrough

Lawrence M. Kimbrough
President and Chief Executive Officer

FIRST CHARTER CORPORATION
10200 David Taylor Drive
Charlotte, North Carolina 28262-2373

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

to be held on April 22, 2003

TO THE SHAREHOLDERS:

The Annual Meeting of Shareholders of First Charter Corporation will be held at the First Charter Center, 10200 David Taylor Drive, Charlotte, North Carolina on Tuesday, April 22, 2003 at 9:30 a.m., for the following purposes:

1. To elect five directors with terms expiring in 2006;
2. To ratify the action of our Board of Directors in selecting KPMG LLP as our independent certified public accountants for 2003; and
3. To transact any other business properly brought before the meeting or any adjournment thereof.

We have fixed February 27, 2003 as the record date for the determination of shareholders entitled to notice of and to vote at the Annual Meeting. Only holders of Common Stock of record at the close of business on that date will be entitled to notice of and to vote at the meeting and at any adjournment thereof.

You are cordially invited to attend the Annual Meeting. Whether or not you plan to attend, please sign, date and return the accompanying proxy card promptly (or vote by phone or on the Internet in accordance with the instructions on the proxy card), so that your shares may be represented and voted at the Annual Meeting.

By order of the Board of Directors,

/s/ Anne C. Forrest

Anne C. Forrest
Vice President and Corporate Secretary

March 13, 2003

FIRST CHARTER CORPORATION
10200 David Taylor Drive
Charlotte, North Carolina 28262-2373

PROXY STATEMENT

2003 Annual Meeting of Shareholders
to be held on April 22, 2003

INFORMATION ABOUT ANNUAL MEETING AND VOTING

Background Information

The principal executive offices of First Charter Corporation are located at 10200 David Taylor Drive, Charlotte, North Carolina 28262-2373 and our telephone number is (704) 688-4300. We own all of the outstanding capital stock of First Charter Bank, a North Carolina state bank (FCB).

References throughout this Proxy Statement to the Corporation (as well as the words we, us and our) refer to First Charter Corporation. References to you or your refer to our shareholders. The term Common Stock means the Corporation's outstanding common stock.

Purpose of Proxy Statement

The Board of Directors of First Charter Corporation is soliciting your proxy for voting at our Annual Meeting of Shareholders to be held on Tuesday, April 22, 2003 at 9:30 a.m., at the First Charter Center, 10200 David Taylor Drive, Charlotte, North Carolina. This Proxy Statement will be mailed to shareholders on or about March 13, 2003.

Business to be Transacted

At the Annual Meeting, we will ask you to:

Elect five directors, with terms expiring in 2006;

Ratify the action of our Board of Directors in selecting KPMG LLP as our independent certified public accountants for 2003; and

Consider and vote upon any other business properly brought before the meeting.

No other items are scheduled to be voted upon.

Who May Vote

Shareholders as of the close of business on February 27, 2003 (the Record Date) are entitled to vote at the Annual Meeting. Each share of Common Stock is entitled to one vote on each of the matters voted upon at the meeting, except that shares held by FCB, whether or not held in a fiduciary capacity, may not be voted by FCB in the election of directors.

How to Vote

Shareholders may vote at the Annual Meeting:

In person;

By mail via the proxy card;

By telephone in accordance with the instructions on your proxy card; or

Over the Internet in accordance with the instructions on your proxy card.

Quorum to Transact Business

A quorum for the transaction of business at the Annual Meeting consists of the majority of the issued and outstanding shares of Common Stock entitled to vote on a particular matter, present in person or represented by proxy. As of the Record Date, 29,963,755 shares of Common Stock were issued and outstanding. If you attend in person and indicate your presence, or mail in a properly dated proxy card or vote by phone or on the Internet in accordance with the instructions on the proxy card, your shares will be counted toward a quorum.

Voting of Shares Via Proxy

If you have submitted a properly executed proxy via the mail (or if you vote by phone or on the Internet in accordance with the instructions on the proxy card) and a quorum is established, your shares will be voted as you indicate. However, if you mail in your proxy card and sign and date your card, but do not mark it, your shares will be voted in favor of the election of all of the nominated directors, and in favor of ratifying KPMG LLP as our independent certified public accountants for 2003. If you sign and date your proxy card and withhold voting for any or all of the nominated directors (as explained on the proxy card) or abstain regarding the ratification of the Board of Directors' selection of KPMG LLP as our independent certified public accountants for 2003, your vote will be recorded as being withheld or as an abstention, as the case may be, but it will have no effect on the outcome of the vote. Proxies submitted by brokers that do not indicate a vote for some or all of the proposals because they do not have discretionary voting authority and have not received instructions as to how to vote on those proposals (so-called "broker non-votes") will be counted for purposes of determining a quorum but will not affect the outcome of the vote.

Revocation of Proxy

If you later decide to revoke or change your proxy, you may do so by: (1) sending a written statement to that effect to the Secretary of the Corporation; (2) submitting a properly signed proxy with a later date; or (3) voting in person at the Annual Meeting.

Vote Necessary for Action

Directors are elected by a plurality vote of shares present at the meeting, meaning that the director nominee with the most affirmative votes for a particular slot is elected for that slot. In an uncontested election for directors, the plurality requirement is not a factor. The ratification of the appointment of KPMG LLP as our independent certified public accountants for 2003 requires an affirmative vote of the majority of the shares present and voting at the meeting.

Duplicate Proxy Statements and Cards

You may receive more than one proxy statement, proxy card or Annual Report. This duplication will occur if title to your shares is registered differently or your shares are in more than one type of account maintained by Registrar and Transfer Company, our transfer agent. To have all your shares voted, please sign and return all proxy cards or make sure that you vote all of your shares by phone or over the Internet.

Other Business

We know of no other matters to be presented for shareholder action at the Annual Meeting. If other matters are properly presented at the meeting, your signed and dated proxy card, or your vote via telephone or the Internet, gives authority to Robert O. Bratton, Jan H. Hollar and Anne C. Forrest to vote your shares in accordance with their best judgement.

Expenses of Solicitation

We will pay the cost of preparing, assembling and mailing this proxy-soliciting material. In addition to the use of the mail, proxies may be solicited personally or by telephone, by our officers and employees without additional compensation. We pay all costs of solicitation, including certain expenses of brokers and nominees who mail proxy material to their customers or principals.

ELECTION OF DIRECTORS

Our Articles of Incorporation and Bylaws provide that the Board of Directors will consist of at least five but not more than twenty-five members. The exact number of directors is determined by either the agreement of at least 75% of the members of the Board of Directors or by a vote of the shareholders. The directors are divided into three classes having staggered three-year terms. Each class of directors is as nearly equal in number as possible. Our Bylaws provide that a director's term will expire at the first shareholders' meeting after that director reaches age 70. The number of directors is currently fixed at seventeen.

Mr. Charles F. Harry, III, who had served on the Board of Directors since December 1997, passed away on April 26, 2002. As a result, a vacancy was created on the Board of Directors. Mr. Harry's term was to expire at the Annual Meeting. The Board of Directors has not identified a suitable candidate to fill this vacancy, and the vacancy will remain open and will not be filled at the Annual Meeting. Proxies may not be voted for a number of persons greater than the number of nominees listed below. In the event that the Board of Directors appoints an individual to fill this vacancy, such individual would be required to stand for election at the next Annual Meeting of Shareholders immediately following his or her appointment.

The terms of five of the directors expire at the Annual Meeting. The Board of Directors has nominated the five persons listed below to be elected as directors at the Annual Meeting, each for a term to expire in 2006. Each nominee is currently a member of the Board of Directors. It is intended that the persons named in the accompanying form of proxy will vote to elect these five nominees listed below unless authority to vote is withheld. The nominees will serve until the 2006 Annual Meeting of Shareholders or until an earlier resignation or retirement or until a successor shall be elected and shall qualify to serve. We expect that each of the nominees will be available for election. However, if a vacancy in the slate of nominees is caused by death or other unexpected occurrence, it is intended that shares represented by the accompanying proxy will be voted for the election of a substitute nominee selected by the persons named in the proxy. **We recommend a vote FOR all of the nominees for election as directors.**

The names, ages and principal occupations (which have continued for the past five years unless otherwise indicated) and certain other information for each of the nominees and continuing directors are set forth below.

Nominees for Terms Expiring in 2006

MICHAEL R. COLTRANE, age 56, is the President and Chief Executive Officer of CT Communications, Inc., a telecommunications company. Mr. Coltrane also serves as the Vice Chairman of the Board of the Corporation and of FCB. He served as a director of the Corporation from 1983 until 1985 and has currently served as a director of the Corporation since 1988. Mr. Coltrane also serves as a director of CT Communications, Inc.

J. ROY DAVIS, JR., age 69, has been the Chairman Emeritus of S&D Coffee, Inc., a coffee roasting and beverage distribution firm, since July 2000. Prior to that time, he was the President of S&D Coffee, Inc. from January 1965 to July 2000. He also serves as the Chairman of the Board of the Corporation. Mr. Davis has been a director of the Corporation since 1983.

CHARLES A. JAMES, age 56, is the President of Mt. Pleasant Insurance Agency and the co-owner of Mt. Pleasant Bonded Warehouse, a general commodity storage company. Mr. James has been a director of the Corporation since April 2000.

WALTER H. JONES, JR., age 61, is a partner in the law firm of Homesley, Jones, Gaines, Dudley, McLurkin & Donaldson, PLLC. Mr. Jones has been a director of the Corporation since April 2000.

HUGH H. MORRISON, age 55, is the President of E. L. Morrison Lumber Company, Inc., a retail building supply company and M.B. Properties, Inc., a real estate sales, leasing and property management company. Mr. Morrison serves as a Trustee of the Virginia Episcopal School. Mr. Morrison has been a director of the Corporation since 1984.

Continuing Directors With Terms Expiring in 2005

DR. WILLIAM R. BLACK, age 54, is a medical doctor specializing in oncology. Dr. Black has been a director of the Corporation since 1990.

JAMES E. BURT, III, age 65, is the Chairman of the Board of FCB. Mr. Burt was an Executive Vice President of the Corporation from April 2000 until his retirement effective June 30, 2000. Prior to the merger of Carolina First BancShares, Inc. (CFBI) into the Corporation, Mr. Burt was the President of CFBI from 1990 to April 2000, and the Chief Executive Officer of CFBI from 1998 to April 2000. Mr. Burt also serves on the Board of Directors of The Foundation for the Carolinas. Mr. Burt has been a director of the Corporation since April 2000.

JOHN J. GODBOLD, JR., age 61, has been the President of Godbold Financial Associates, Inc., a bank consulting company, since April 2000. Prior to that time, he was Executive Vice President of FCB from December 1997 until his retirement effective December 31, 1998. Prior to the merger of Carolina State Bank (CSB) into FCB, Mr. Godbold served as President and Chief Executive Officer and a director of CSB. Mr. Godbold has been a director of the Corporation since December 1997.

FRANK H. HAWFIELD, JR., age 69, is the owner of Frank Hawfield Real Estate, a real estate construction and development company. Until January 2001, Mr. Hawfield was the owner of Firestone Home and Auto Supply Store, a retail home and auto supply company. Mr. Hawfield has been a director of the Corporation since 1995.

L. D. WARLICK, JR., age 63, is the President of Warlick Funeral Home. Mr. Warlick has served as a director of the Corporation since April 2000.

WILLIAM W. WATERS, age 61, is the President of Waters Construction Company, a homebuilder. Mr. Waters has been a director of the Corporation since June 2000.

Continuing Directors With Terms Expiring in 2004

HAROLD D. ALEXANDER, age 67, is the President and owner of Young & Alexander, Inc., an electrical, heating and air conditioning contractor. Mr. Alexander has been a director of the Corporation since April 2000.

LAWRENCE M. KIMBROUGH, age 62, is the President and Chief Executive Officer of the Corporation and FCB. Mr. Kimbrough has been a director of the Corporation since 1986.

SAMUEL C. KING, JR., age 55, is the President of King's Office Supply, Inc., an office products retailer. Mr. King also has been the President of King Cain, Inc., d/b/a Mail Boxes Etc., a retail packaging and shipping company, since April 1999. Mr. King has been a director of the Corporation since April 2000.

DR. JERRY E. MCGEE, age 60, is President of Wingate University. Dr. McGee has been a director of the Corporation since 1995.

THOMAS R. REVELS, age 50, has been the President of Healthstat Inc., a healthcare services company, since September 2001. He previously served as the President of Healthgram.com, Inc., an internet information services company, from March 2000 until August 2001. From January 1998 until February 2000, Mr. Revels was the President and Chief Executive Officer of Novant Health, Inc., Southern Piedmont Region/Presbyterian Healthcare, a healthcare services company. Mr. Revels has been a director of the Corporation since July 1997.

No director has a family relationship as close as first cousin with any other director, nominee for director or executive officer of the Corporation.

Compensation of Directors

During 2002, each director of the Corporation who was not employed by the Corporation or its subsidiaries (an outside director) was paid director fees of (1) \$1,000 per quarter for his services as a director, (2) \$600 for each meeting of the Board of Directors of the Corporation attended, (3) \$400 for each Executive Committee meeting attended, and (4) \$300 for all other committee meetings attended. The compensation for outside directors is periodically reviewed for adjustment.

Deferred Compensation for Non-Employee Directors. Effective May 1, 2001, the Corporation amended and restated the First Charter Corporation 1994 Deferred Compensation Plan for Non-Employee Directors (the Deferred Compensation Plan). Under the Deferred Compensation Plan, eligible directors may elect to defer all or part of their director's fees for a calendar year, in exchange for Common Stock. The amount deferred, if any, must be in multiples of 25 percent of their total director's fees. Each participant is fully vested in his account balance under the plan. The plan generally provides for fixed payments or a lump sum payment, or a combination of both, in shares of Common Stock after the participant ceases to serve as a director for any reason.

The Common Stock purchased by the Corporation for the Deferred Compensation Plan is maintained in The First Charter Corporation Directors' Deferred Compensation Trust, a Rabbi Trust (the Trust), on behalf of the participants. The assets of the Trust are subject to the claims of general creditors of the Corporation. Dividends payable on the shares of Common Stock held by the Trust will be reinvested in additional shares of Common Stock on behalf of the participants. Deferrals of director fees pursuant to this plan amounted to \$88,025 for 2002.

Effective May 1, 2001, the Corporation approved and adopted a non-qualified compensation deferral arrangement called the First Charter Corporation Directors' Option Deferral Plan (the Director OPT Plan). Under the Director OPT Plan, eligible directors may elect to defer all of their director fees and receive option grants on mutual fund investments. Participants are offered the opportunity to direct an

administrative committee to invest in separate investment funds with distinct investment objectives and risk tolerances. Deferrals of director fees pursuant to this plan amounted to \$17,325 for 2002.

We also maintain the First Charter Stock Option Plan for Non-Employee Directors (the Director Option Plan). The Compensation Committee from time to time may grant non-qualified options to purchase Common Stock to eligible directors of the Corporation or a subsidiary in accordance with this plan. The terms and provisions of any options granted, including the termination, vesting and accelerated exercise of the options, upon death, disability, retirement or otherwise, is subject to the discretion of the Compensation Committee. The exercise price of any option must be equal to the fair market value of the Common Stock on the date of grant. In January 2002, the Compensation Committee granted an option to purchase 3,500 shares of Common Stock to each of the outside directors of the Corporation that served on the Executive Committee at that time. The Compensation Committee further granted an option to purchase 2,500 shares of Common Stock to the remaining outside directors of the Corporation. The options granted to these persons have terms of ten years and are 20% exercisable immediately and exercisable in cumulative installments of 20% per year over the next four years, at an exercise price of \$17.37 per share.

John J. Godbold, Jr., a director of the Corporation, received commissions from a related party transaction with the Corporation in the amount of \$439,000 during 2002. For a more detailed description of this transaction, see Certain Relationships and Related Transactions.

Attendance of Directors

During 2002, the Board of Directors held eight meetings. Each director attended at least 75% of the aggregate number of meetings of the Board of Directors and of all committees of the Board of Directors on which they served during 2002, except for Thomas R. Revels, who attended 70% of such aggregate number of meetings of the Board of Directors.

Committees of the Board of Directors

The following is a brief description of the duties of each of our committees and a list of the members of each such committee.

Executive Committee. The Executive Committee reviews management reports and makes recommendations to the directors at the regularly scheduled Board of Directors meetings. The Executive Committee met six times during 2002. J. Roy Davis, Jr. (Chairman), Michael R. Coltrane (Vice Chairman), William R. Black, James E. Burt, III, John J. Godbold, Jr., Walter H. Jones, Jr., Lawrence M. Kimbrough, Jerry E. McGee and Hugh H. Morrison are the current members of the Executive Committee.

Audit Committee. The Audit Committee reviews the work and reports of our internal auditors, our independent auditors, and any examinations conducted by regulatory agencies. The Audit Committee also establishes the scope and detail of the audit program, which is conducted by the internal auditors to protect against improper and unsound practices and to furnish adequate protection of all of our assets and records. It also reviews the independence and professional fees of the independent certified public accountants. The Audit Committee met ten times during 2002. William R. Black (Chairman), Frank H. Hawfield, Jr., Charles A. James and L. D. Warlick, Jr. are the current members of the Audit Committee. John J. Godbold, Jr. and Samuel C. King, Jr. served on the Audit Committee until November 2002, at which time they were replaced by Messrs. Black and James.

Compensation Committee. The Compensation Committee annually reviews and recommends to the Board of Directors salary grade ranges and merit increase guidelines for our employees and the employees of our subsidiaries. In addition, the committee recommends to the Board of Directors the annual budget request for all salaries and overtime and specifically recommends to the Board of Directors all executive officers salaries. Furthermore, it reviews recommendations from management regarding

major benefit plans and recommends to the Board of Directors annually the formula for matching contributions and discretionary contributions made by the Corporation to the First Charter Retirement Savings Plan. The Committee also reviews recommendations for the formula for funding and payments under the Corporation's Executive Incentive Bonus Plan (the Annual Incentive Plan). The Compensation Committee grants options under and administers the First Charter Comprehensive Stock Option Plan, 2000 Omnibus Stock Option and Award Plan (the Omnibus Stock Option Plan), the 1999 Employee Stock Purchase Plan (1999 ESPP), and the Director Option Plan. In order to comply with certain restrictions under Rule 16b-3, the Compensation Committee generally will be composed solely of directors who qualify as non-employee directors, as that term is defined under Section 16 of the Securities Exchange Act of 1934, as amended (the Exchange Act). The Compensation Committee met seven times during 2002. Jerry E. McGee (Chairman), William R. Black, J. Roy Davis, Jr., Frank H. Hawfield, Jr., Charles A. James, Walter H. Jones, Jr. and Thomas R. Revels are the current members of the Compensation Committee. Michael R. Coltrane and Samuel C. King, Jr. served on the committee until November 2002, at which time they were replaced by Messrs. Black and James.

Asset-Liability Management Committee. The Asset-Liability Management Committee monitors our financial condition and makes adjustments in policies affecting lending, pricing of services, investment securities and liability positions with a view to current and anticipated interest rates and other economic conditions. The Asset-Liability Management Committee met five times during 2002. Michael R. Coltrane (Chairman), Harold D. Alexander, William R. Black, J. Roy Davis, Jr., John J. Godbold, Jr., Walter H. Jones, Jr., Lawrence M. Kimbrough, Samuel C. King, Jr., Thomas R. Revels, L. D. Warlick, Jr. and William W. Waters are the current members of the Asset-Liability Management Committee.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee was formed during 2002. The Nominating and Corporate Governance Committee evaluates and recommends nominees for the Board of Directors. In addition, the Nominating and Corporate Governance Committee assesses the effectiveness of the Board of Directors and its committees and assists in the development and implementation of the Corporation's corporate governance guidelines. The Nominating and Corporate Governance Committee met once during 2002. Walter H. Jones, Jr. (Chairman), Harold D. Alexander, J. Roy Davis, Jr., L.D. Warlick, Jr., and William W. Waters are the current members of the Nominating and Corporate Governance Committee.

Nominations for Director

Our Bylaws set forth the procedures for you to follow in order to nominate persons for election to the Board of Directors. Generally, you may properly bring a nomination before the annual meeting of shareholders in a given year if you provide written notice to the Corporation's Secretary at least 50 days, but not more than 75 days, prior to the anniversary date of the prior year's shareholder meeting. This notice must include certain biographical information relating to the person nominated. You must also inform us of the number of shares of Common Stock you beneficially own. The Nominating and Corporate Governance Committee may (in its discretion) consider the nomination for the Board of Directors' slate of nominees for that year. The Bylaws provide a different time frame for submitting nominations if the Annual Meeting is held more than 30 days before or 60 days after the anniversary date of the prior year's meeting. Finally, the Bylaws set forth under what circumstances you may submit a nomination for director before a special meeting of shareholders and the time within which the nomination must be submitted. Unless nominations are presented in accordance with these Bylaw provisions, they will be disregarded and invalid. You may obtain a copy of the Bylaws, upon written request to First Charter Corporation, Post Office Box 37937, Charlotte, North Carolina, 28237-7937, Attention: Robert O. Bratton, and upon payment of \$25.00 to cover the costs of reproduction and mailing.

OWNERSHIP OF COMMON STOCK

The following table shows, as of January 31, 2003, the number of shares of Common Stock and the percent of outstanding Common Stock beneficially owned by (i) all directors of the Corporation, (ii) each executive officer of the Corporation named in the Summary Compensation Table contained elsewhere herein and (iii) all directors and executive officers as a group. Based upon a search of filings made with the Securities and Exchange Commission, no shareholder of the Corporation owns 5 percent or more of our Common Stock.

Name	Shares Beneficially Owned(1)	
	Number	Percent of Class
Harold D. Alexander	124,299(2)	*
William R. Black	71,936(3)	*
Robert O. Bratton	153,901(4)	*
James E. Burt, III	141,138(5)	*
Michael R. Coltrane	80,397(6)	*
J. Roy Davis, Jr.	42,481(7)	*
John J. Godbold, Jr.	273,046(8)	*
Frank H. Hawfield, Jr.	26,794(9)	*
Charles A. James	149,560(10)	*
Robert E. James, Jr.	84,727(11)	*
Walter H. Jones, Jr.	40,529(12)	*
Lawrence M. Kimbrough	209,446(13)	*
Samuel C. King, Jr.	67,500(14)	*
C. Thomas McFarland	34,794(15)	*
Jerry E. McGee	19,194(16)	*
Hugh H. Morrison	52,478(17)	*
Thomas R. Revels	8,048(18)	*
Stephen M. Rownd	32,326(19)	*
L. D. Warlick, Jr.	164,029(20)	*
William W. Waters	63,016(21)	*
All directors and executive officers of the Corporation as a group (20 persons)	1,839,639	6.1%

* Less than 1%.

- (1) Except as otherwise noted, the persons named in the table have sole voting and investment power with respect to the shares listed.
- (2) Includes 23,717 shares owned by Mr. Alexander's spouse, as to which she has sole voting and investment power; and 2,080 shares that may be acquired by him upon the exercise of stock options that are currently exercisable or become exercisable within 60 days of January 31, 2003, as to which he would have sole voting and investment power upon acquisition.
- (3) Includes 8,160 shares that may be acquired by Mr. Black upon the exercise of stock options that are currently exercisable or become exercisable within 60 days of January 31, 2003, as to which he would have sole voting and investment power upon acquisition.
- (4) Includes 3,874 shares owned by Mr. Bratton's spouse, as to which she has sole voting and investment power; and 73,370 shares that may be acquired by him upon the exercise of stock options that are currently exercisable or become exercisable within 60 days of January 31, 2003, as to which he would have sole voting and investment power upon acquisition.
- (5) Includes 10,667 shares owned by Mr. Burt's spouse, as to which she has sole voting and investment power; and 2,480 shares that may be acquired by him upon the exercise of stock options that are currently

exercisable or become exercisable within 60 days of January 31, 2003, as to which he would have sole voting and investment power upon acquisition.

- (6) Includes 8,834 shares owned by Mr. Coltrane's spouse, as to which she has sole voting and investment power, and as to which he disclaims beneficial ownership; and 8,160 shares that may be acquired by him upon the exercise of stock options that are currently exercisable or become exercisable within 60 days of January 31, 2003, as to which he would have sole voting and investment power upon acquisition.
- (7) Includes 8,160 shares that may be acquired by Mr. Davis upon the exercise of stock options that are currently exercisable or become exercisable within 60 days of January 31, 2003, as to which he would have sole voting and investment power upon acquisition.
- (8) Includes 41,792 shares owned by Mr. Godbold's spouse, as to which she has sole voting and investment power, and as to which he disclaims beneficial ownership; and 5,360 shares that may be acquired by him upon the exercise of stock options that are currently exercisable or become exercisable within 60 days of January 31, 2003, as to which he would have sole voting and investment power upon acquisition.
- (9) Includes 7,760 shares that may be acquired by Mr. Hawfield upon the exercise of stock options that are currently exercisable or become exercisable within 60 days of January 31, 2003, as to which he would have sole voting and investment power upon acquisition.
- (10) Includes 19,200 shares owned jointly by Mr. Charles A. James and his children, as to which he has shared voting and investment power; and 2,080 shares that may be acquired by him upon the exercise of stock options that are currently exercisable or become exercisable within 60 days of January 31, 2003, as to which he would have sole voting and investment power upon acquisition.
- (11) Includes 73,603 shares that may be acquired by Mr. Robert E. James, Jr. upon the exercise of stock options that are currently exercisable or become exercisable within 60 days of January 31, 2003, as to which he would have sole voting and investment power upon acquisition; and 2,000 unvested restricted shares granted under the Corporation's Restricted Stock Award Program, as to which he has sole voting power, but no investment power.
- (12) Includes 585 shares owned jointly by Mr. Jones and his spouse, as to which he has shared voting and investment power; 27,148 shares owned by his spouse, as to which she has sole voting and investment power; and 2,480 shares that may be acquired by him upon the exercise of stock options that are currently exercisable or become exercisable within 60 days of January 31, 2003, as to which he would have sole voting and investment power upon acquisition.
- (13) Includes 633 shares owned by Mr. Kimbrough's spouse, as to which she has sole voting and investment power; and 140,443 shares that may be acquired by him upon the exercise of stock options that are currently exercisable or become exercisable within 60 days of January 31, 2003, as to which he would have sole voting and investment power upon acquisition.
- (14) Includes 5,721 shares owned jointly by Mr. King and his spouse, as to which they have shared voting and investment power; 4,460 shares owned by his spouse, as to which she has sole voting and investment power; 14,798 shares owned by his mother, as to which she has sole voting and investment power; and 1,720 shares that may be acquired by him upon the exercise of stock options that are currently exercisable or become exercisable within 60 days of January 31, 2003, as to which he would have sole voting and investment power upon acquisition.
- (15) Includes 29,179 shares that may be acquired by him upon the exercise of stock options that are currently exercisable, as to which he would have sole voting and investment power upon acquisition.
- (16) Includes 8,160 shares that may be acquired by Mr. McGee upon the exercise of stock options that are currently exercisable or become exercisable within 60 days of January 31, 2003, as to which he would have sole voting and investment power upon acquisition.
- (17) Includes 1,451 shares owned by Mr. Morrison's spouse, as to which she has sole voting and investment power; and 7,080 shares that may be acquired by him upon the exercise of stock options that are currently exercisable or become exercisable within 60 days of January 31, 2003, as to which he would have sole voting and investment power upon acquisition.
- (18) Includes 1,238 shares jointly owned by Mr. Revels and his spouse, as to which they have shared voting and investment power, and 5,960 shares that may be acquired by Mr. Revels upon the exercise of stock options that are currently exercisable or become exercisable within 60 days of January 31, 2003, as to which he would have sole voting and investment power upon acquisition.
- (19) Includes 27,326 shares that may be acquired by Mr. Rownd upon the exercise of stock options that are currently exercisable or become exercisable within 60 days of January 31, 2003, as to which he would have

sole voting and investment power upon acquisition; and 2,000 unvested restricted shares granted under the Corporation's Restricted Stock Award Program, as to which he has sole voting power, but no investment power.

- (20) Includes 4,281 shares held by Mr. Warlick's spouse as custodian for their children, as to which she has sole voting and investment power; 11,816 shares owned by his spouse, as to which she has sole voting and investment power; 16,029 shares owned by his mother, as to which she has sole voting and investment power; and 2,080 shares that may be acquired by him upon the exercise of stock options that are currently exercisable or become exercisable within 60 days of January 31, 2003, as to which he would have sole voting and investment power upon acquisition.
- (21) Includes 2,080 shares that may be acquired by Mr. Waters upon the exercise of stock options that are currently exercisable or become exercisable within 60 days of January 31, 2003, as to which he would have sole voting and investment power upon acquisition.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of the Board of Directors is composed of four directors and operates under a written charter adopted by the Board of Directors that was amended during 2002 and is attached hereto as Appendix A. All members of the Audit Committee are independent in accordance with Rule 4200 (a) (14) of the National Association of Securities Dealers definition of independent director.

Management is responsible for the Company's internal controls and the financial reporting process. The independent auditors are responsible for performing an audit of the Company's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and issuing a report thereon. The Audit Committee, among other things, is responsible for monitoring and overseeing these processes.

In this context, the Audit Committee has met and held discussions with management and the independent auditors. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and the Audit Committee has reviewed and discussed the audited consolidated financial statements with management and the independent auditors. The Audit Committee has discussed with the independent auditors matters required to be discussed by Statement on Auditing Standards No. 61, as amended (Codification of Statements on Auditing Standards).

The Company's independent auditors also provided to the Audit Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Audit Committee has discussed with the independent auditors that firm's independence.

Based upon the Audit Committee's discussions with management and the independent auditors and the Audit Committee's review of the representations of management and the report of the independent auditors to the Audit Committee, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, filed with the Securities and Exchange Commission.

Submitted by the Audit Committee of the Board of Directors:

William R. Black
Charles A. James

Frank H. Hawfield, Jr.
L. D. Warlick, Jr.

EXECUTIVE COMPENSATION

Summary Compensation Table

The following Summary Compensation Table shows the compensation of the Chief Executive Officer and each person who was an executive officer of the Corporation during 2002 (the named executive officers), in each case, for services rendered in all capacities during the periods indicated.

Name and Principal Position(s)	Year	Annual Compensation			Long Term Compensation		
		Salary (\$)	Bonus (\$ (2))	Other Annual Compensation (\$ (3))	Restricted Stock Award (\$ (4))	Securities Underlying Options/SARs (#)	All Other Compensation (\$)
Lawrence M. Kimbrough	2002	\$ 350,000	\$ 218,750			48,650	\$ 37,307(5)
President and Chief Executive Officer	2001	300,000	102,300			45,821	31,284
	2000	250,000	33,750			36,590	19,764
Robert O. Bratton	2002	\$ 204,000	\$ 102,000			22,965	\$ 21,457(5)
Executive Vice President,	2001	196,000	53,469			24,171	20,098
Chief Financial Officer and Treasurer	2000	175,000	18,900			20,666	18,270
Robert E. James	2002	\$ 204,000	\$ 102,000			21,985	\$ 21,457(5)
Executive Vice President	2001	196,000	53,469	\$ 59,904		24,171	20,098
	2000	175,000	18,900			20,666	17,252
C. Thomas McFarland (1)	2002	\$ 191,000				21,499	\$ 7,919(5)
Executive Vice President	2001	183,600	\$ 50,086			22,672	18,688
	2000	170,000	18,360	\$ 84,401		20,075	9,137
Stephen M. Rownd	2002	\$ 191,000	\$ 84,040			20,584	\$ 15,233(5)
Executive Vice President	2001	183,600	50,086			21,822	14,041
	2000	141,667	65,300	\$ 71,616	\$ 67,188	10,000	4,064

- (1) Effective November 25, 2002, C. Thomas McFarland resigned from his position as Executive Vice President of the Corporation. The amount in the salary column for 2002 includes \$15,917 of severance compensation, which was paid during 2002.
- (2) Represents amounts earned pursuant to the Corporation's Annual Incentive Plan for the year indicated. Amounts earned during a particular year are paid during the succeeding calendar year after they are earned. See Report of Compensation Committee on Executive Compensation for a brief description of the Annual Incentive Plan.
- (3) As permitted by rules promulgated by the Securities and Exchange Commission, no amounts are shown for any executive officer with respect to certain perquisites, where such amounts do not exceed the lesser of (i) 10% of the sum of the amounts of salary and bonus for the executive officer, or (ii) \$50,000.
- (4) The named executive officers were granted restricted stock awards in prior years, which vest over a period of time. The amount shown in the table is the total dollar value of the restricted stock award granted in such year. The value is determined by multiplying the number of shares in such award by the closing market price of the Common Stock on the date of the grant. Holders of restricted stock receive the same cash dividends as other shareholders owning Common Stock. The restrictions imposed on the restricted shares will lapse with respect to one-fifth of the shares on the last day of each year beginning the year the shares were granted. In the event the participant's employment with the Corporation ends due to the participant's death, disability or retirement with the consent of the Corporation, or because the Corporation undergoes a change of control, all restrictions will lapse and all restricted shares will be released to the participant. As of December 31, 2002, the aggregate number and market value of all restricted shares held by participants were as follows: Kimbrough 3,902 (\$70,275); Bratton 1,951 (\$35,138); James 10,000 (\$180,100); McFarland 3,000 (\$54,030); and Rownd 5,000 (\$90,050). At December 31, 2002 these restricted shares

had vested 100% with respect to the restricted shares owned by Mr. Kimbrough and Mr. Bratton, had vested 80% with respect to the restricted shares owned by Mr. Robert James and had vested 60% with respect to the restricted shares owned by Mr. Rownd. At November 1, 1999, Mr. McFarland was granted 5,000 restricted shares that were to vest 20% on December 31 of each year, beginning December 31, 1999. At the time he resigned from the Corporation, Mr. McFarland had vested with respect to 3,000 restricted shares. The remaining 2,000 restricted shares have been forfeited.

- (5) Consists of (i) amounts contributed by the Corporation under the Retirement Savings Plan; (ii) amounts contributed by the Corporation under the First Charter Option Plan Trust (the OPT Plan); and (iii) the dollar value of the premium paid by the Corporation for term life insurance. The amounts paid pursuant to the Retirement Savings Plan are as follows: Kimbrough, Bratton and James \$17,000 each; McFarland \$4,156; and Rownd \$13,318. Amounts contributed to the OPT Plan by the Corporation are as follows: Kimbrough \$15,159; Bratton \$3,469; James \$3,469; and Rownd \$1,517. The dollar amount of premiums paid by the Corporation for term life insurance are as follows: Kimbrough \$5,148; Bratton \$988; James \$988; McFarland \$580; and Rownd \$398. Mr. McFarland also received \$3,183, which represents earned paid time off.

Stock Option Plans

We have in effect the Omnibus Stock Option Plan, the Comprehensive Stock Option Plan, and the 1999 ESPP pursuant to which the Compensation Committee may grant stock options to officers and other key employees of the Corporation and its subsidiaries.

The following table indicates option grants pursuant to our plans during our last fiscal year.

Option/SAR Grants in Last Fiscal Year

Individual Grants

Name	Number of Securities Underlying Options/SARs Granted	Percent of Total Options/SARs Granted to Employees in Fiscal Year (6)	Exercise or Base Price (\$/Sh)	Date of Grant Market Value	Expiration Date	Grant Date Present Value (3)
L.M. Kimbrough	47,150(1)	9.50%	\$ 17.370	\$ 17.370	01/16/12	\$ 263,163(4)
	1,500(2)	0.30%	\$ 14.920	\$ 17.280(7)	12/31/02	\$ 5,570(5)
R.O. Bratton	21,985(1)	4.43%	\$ 17.370	\$ 17.370	01/16/12	\$ 122,707(4)
	980(2)	0.20%	\$ 14.920	\$ 17.280(7)	12/31/02	\$ 3,639(5)
R.E. James	21,985(1)	4.43%	\$ 17.370	\$ 17.370	01/16/12	\$ 122,707(4)
C.T. McFarland	20,584(1)	4.15%	\$ 17.370	\$ 17.370	01/16/12	\$ 114,888(4)
	915(2)	0.20%	\$ 14.920	\$ 17.280(7)	12/31/02	\$ 3,398(5)
S.M. Rownd	20,584(1)	4.15%	\$ 17.370	\$ 17.370	01/16/12	\$ 114,888(4)

- (1) Represents shares covered by incentive stock options granted pursuant to the Omnibus Stock Option Plan. All such options granted under the Omnibus Stock Option Plan in 2002 vest at the rate of 20% on the six month anniversary of the date of grant, and thereafter, 20% on each anniversary of the date of grant, such that the options become fully vested on the fourth anniversary of the date of grant. Such options have an exercise price equal to 100% of fair market value of such shares on the date of the grant.
- (2) Represents shares covered by options granted in 2002 pursuant to the Corporation's 1999 ESPP. Pursuant to the 1999 ESPP, eligible employees are notified of the number of shares with respect to which options can be granted to such employee thereunder, and then each employee elects the number of shares to be so covered by the options. The number in the table represents the number of shares so elected.

Options granted under the 1999 ESPP are exercisable in the year they are granted, after which they expire if not exercised. Options granted under the 1999 ESPP have an exercise price equal to 85% of the fair market value of such shares on the date of the grant.

- (3) Values are based on the Black-Scholes option pricing model adapted for use in valuing stock options. The actual value, if any, an executive may realize will depend on the excess of the stock price over the exercise price on the date the option is exercised. There is no assurance the value realized by an executive will be at or near the value estimated by the Black-Scholes model.
- (4) The estimated values under the Black-Scholes model for options granted under the Omnibus Stock Option Plan are based on the following assumptions: exercise price is 100% of the fair market value at date of grant; exercise term is ten years; no discounts have been taken for vesting or restrictions; the risk free rate used is based on the 10-year Treasury note yield as of the date the options were issued; the volatility factor is 38% (based on the preceding 12 months); and the dividend yield is 4.03% (based on the preceding 12 months).
- (5) The estimated values under the Black-Scholes model for options granted under the 1999 ESPP are based on the following assumptions: exercise price is 85% of the fair market value at the date of grant; exercisable term is the year in which the options are granted; no discounts have been taken for vesting or restrictions; the risk free rate used is based on the 10-year Treasury note yield as of the date the options were issued; the volatility factor is 38% (based on the preceding 12 months); and the dividend yield is 4.03% (based on the preceding 12 months).
- (6) Based on options to purchase 496,346 shares granted to all employees.
- (7) Represents the closing price of \$17.28 on January 2, 2002, the date of grant. The actual exercise price of \$14.92 is calculated based on 85% of the average of the bid and ask price on November 21, 2001. This date, as set by the terms of the 1999 ESPP, was recommended by the Compensation Committee and ratified by the Board of Directors.

The following table provides a summary of the stock options exercised during 2002 by the named executive officers and the value of each executive's unexercised stock options held at fiscal year end under our stock option plans.

Aggregated Option / SAR Exercises in 2002 and Option / SAR Values at December 31, 2002

Name	Number of Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options/SARs at 12/31/02		Value of In-the-money Options/SARs (1) at 12/31/02	
			Exercisable	Unexercisable	Exercisable	Unexercisable
L.M. Kimbrough	2,750	\$ 11,895	140,443	100,903	\$ 213,150	\$ 83,208
R.O. Bratton	1,855	\$ 8,104	73,370	48,066	\$ 161,442	\$ 43,399
R.E. James	875	\$ 4,988	73,603	48,066	\$ 92,787	\$ 98,970
C.T. McFarland	1,765	\$ 7,755	29,179		\$ 62,847	
S. M. Rownd			25,326	47,300	\$ 53,147	\$ 55,064

- (1) Determined based on the closing price of \$18.01 of the Common Stock as reported by the Nasdaq National Market as of December 31, 2002.

Change in Control and Employment Agreements

Lawrence M. Kimbrough. Pursuant to an amended and restated employment agreement between the Corporation and Lawrence M. Kimbrough effective December 19, 2001, Mr. Kimbrough is employed by the Corporation as Chief Executive Officer for a rolling thirty-six month term which, unless the agreement is terminated earlier, automatically extends on the last day of each successive month thereafter, with the last such possible thirty-six month term expiring on January 31, 2006. Under the terms of the agreement, Mr. Kimbrough will receive an annual base salary of at least \$300,000 per year, plus benefits, and may be entitled to receive annual bonus compensation from one or more arrangements including but not limited to the Annual Incentive Plan.

Pursuant to a supplemental executive retirement plan between Mr. Kimbrough and the Corporation dated June 30, 1999, and as amended and restated December 19, 2001, Mr. Kimbrough will be entitled to receive a total of \$1,980,000, if certain conditions are satisfied, when he reaches the age of 65. Such benefit became 40% vested on the date the supplemental agreement was entered into and vests in additional 12% increments on June 30 of each year thereafter, beginning June 30, 2000, until fully vested on June 30, 2004. This benefit will become fully vested if (i) Mr. Kimbrough dies, (ii) Mr. Kimbrough becomes disabled, or (iii) upon a change in control as described below, and is subject to forfeiture under certain circumstances.

In addition, Mr. Kimbrough has certain other rights in connection with a change in control as described below.

Robert O. Bratton. Pursuant to an amended and restated employment agreement between the Corporation and Robert O. Bratton effective December 19, 2001, Mr. Bratton is employed by the Corporation as Executive Vice President for a rolling thirty-six month term which, unless terminated earlier, automatically extends on the last day of each successive month thereafter, with the last such possible thirty-six month term expiring on July 31, 2013. Under the terms of the agreement, Mr. Bratton will receive an annual base salary of at least \$196,000 per year, plus benefits, and may be entitled to receive annual bonus compensation from one or more arrangements including but not limited to the Annual Incentive Plan.

Pursuant to a supplemental executive retirement plan between Mr. Bratton and the Corporation dated June 30, 1999, and as amended and restated December 19, 2001, Mr. Bratton will be entitled to receive a total of \$560,000, if certain conditions are satisfied, when he reaches the age of 65. Such benefit became 50% vested on the date the supplemental agreement was entered into and vests in additional 10% increments on June 30 of each year thereafter, beginning June 30, 2000, until fully vested on June 30, 2004. This benefit will become fully vested if (i) Mr. Bratton dies, (ii) Mr. Bratton becomes disabled, or (iii) upon a change in control as described below, and is subject to forfeiture under certain circumstances.

In addition, Mr. Bratton has certain other rights in connection with a change in control as described below.

Robert E. James. Pursuant to an amended and restated employment agreement between the Corporation and Robert E. James effective December 19, 2001, Mr. James is employed by the Corporation as Executive Vice President for a rolling thirty-six month term which, unless terminated earlier, automatically extends on the last day of each successive month thereafter, with the last such possible thirty-six month term expiring on October 31, 2015. Under the terms of the agreement, Mr. James will receive an annual base salary of at least \$196,000 per year, plus benefits, and may be entitled to receive annual bonus compensation from one or more arrangements including but not limited to the Annual Incentive Plan.

Pursuant to a supplemental executive retirement plan between Mr. James and the Corporation dated June 21, 1999, and as amended and restated December 19, 2001, Mr. James will be entitled to receive a total of \$785,000, if certain conditions are satisfied, when he reaches the age of 65. Such benefit will become 50% vested on January 1, 2004 and vests in additional 10% increments on January 1 of each year thereafter, beginning January 1, 2005, until fully vested on January 1, 2009. This benefit will become fully vested if (i) Mr. James dies, (ii) Mr. James becomes disabled, or (iii) upon a change in control as described below, and is subject to forfeiture under certain circumstances.

In addition, Mr. James has certain other rights in connection with a change in control as described below.

Stephen M. Rownd. Pursuant to an amended and restated employment agreement between the Corporation and Stephen M. Rownd effective December 19, 2001, Mr. Rownd is employed by the Corporation as Executive Vice President for a rolling thirty-six month term which, unless terminated earlier, automatically extends on the last day of each successive month thereafter, with the last such possible thirty-six month term expiring on May 31, 2024. Under the terms of the agreement, Mr. Rownd will receive an annual base salary of at least \$183,600 per year, plus benefits, and may be entitled to receive annual bonus compensation from one or more arrangements including but not limited to the Annual Incentive Plan.

Mr. Rownd and the Corporation are also parties to a supplemental executive retirement plan effective December 19, 2001, pursuant to which Mr. Rownd will be entitled to receive a total of \$1,205,000, if certain conditions are satisfied, when he reaches age 65. Such benefit will become 50% vested on January 1, 2006 and vests in additional 10% increments on January 1 of each year thereafter, beginning January 1, 2007, until fully vested on January 1, 2011. This benefit will become fully vested if (i) Mr. Rownd dies, (ii) Mr. Rownd becomes disabled, or (iii) upon a change in control as described below, and is subject to forfeiture under certain circumstances.

In addition, Mr. Rownd has certain other rights in connection with a change in control as described below.

C. Thomas McFarland. Effective November 25, 2002, C. Thomas McFarland resigned from the Corporation. In connection with his resignation, the Corporation and Mr. McFarland terminated his employment agreement and supplemental executive retirement plan such that no obligations continued under such agreements. In exchange for terminating these agreements, the Corporation agreed to pay Mr. McFarland severance equal to \$95,500 over a period of six months in bi-monthly installments. In addition, the Corporation agreed to pay Mr. McFarland's group health and dental premiums during this six month period.

Change in Control

The employment agreements between the Corporation and Messrs. Kimbrough, Bratton, James and Rownd contain provisions relating to a change in control. These agreements provide for certain payments to such officers in the event their employment is terminated following a change in control of the Corporation. For purposes of the agreements, a change in control generally includes a merger or similar transaction involving the Corporation in which the Corporation's shareholders receive less than 50% of the voting stock of the surviving corporation, the sale or transfer of substantially all the Corporation's assets, certain acquisitions of more than 20% of the Common Stock by any person or group other than a person or group who owned more than 5% of the Common Stock as of the date of the agreements unless prior approval of the Board is received, certain instances in which the composition of the Corporation's Board of Directors changes by more than 50% during a two year period, or any other transaction that would constitute a change in control required to be reported by the Corporation in a proxy statement or the acquisition of control of the Corporation under applicable federal banking laws.

To be entitled to payments upon such a change in control, (a) the officer's employment must be terminated other than for cause, or (b) the officer must terminate his employment for good reason, in either case within one year following the change in control. Cause is defined generally as willful misconduct, use of narcotics or alcohol in a manner that affects the officer's duties, conviction of a crime involving moral turpitude or for any felony, embezzlement or theft, gross inattention or dereliction of duty or the breach by the officer of certain other duties and obligations. Good reason generally means a material reduction in the officer's duties or a change in title resulting in reduction of the officer's duties, a material reduction in salary or bonus, or the relocation of the officer to an area farther than a specified distance from their primary employment location.

The respective employment agreements of the named executive officers provide for continued payment of base salary and average bonus amounts, as well as certain continued benefits provided to employees generally, for a period of 35 months following an event which would entitle such officer to payments under his agreement. These employment agreements also eliminate the tax-related ceiling on post employment compensation under Section 280G of the Internal Revenue Code of 1986, as amended, by providing for a corresponding payment by the Corporation of any taxes imposed by that section. In addition, upon a change in control resulting in the loss of employment for each of the named executives, the benefits provided under their supplemental executive retirement plans automatically vest 100%, if not fully vested.

REPORT OF COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

Recommendations regarding the compensation of our executive officers generally are presented by the Compensation Committee to the entire Board of Directors for approval. The Human Resources Strategies Committee, comprised of certain executive and senior officers of the Corporation, prepares recommendations on salary grade ranges and merit increase guidelines for review and approval by the Compensation Committee as well as the annual budget request for salaries and benefits. The Executive Leadership Group approves salaries for all personnel, with the exception of executive officers, within the parameters of the annual salary administration program. The Chief Executive Officer (CEO) presents recommendations to the Compensation Committee for the annual salaries of all executive officers other than the CEO. The Compensation Committee, in turn, reviews and analyzes all information submitted to it. Thereafter the Compensation Committee determines its recommendations to the Board of Directors regarding compensation of all executive officers of the Corporation, including recommendations regarding the compensation of the CEO. During 2002, the Board of Directors approved all recommendations of the Compensation Committee.

Set forth below is a report of the Compensation Committee regarding executive compensation for fiscal year 2002.

Executive Compensation Policies and Program. Our executive compensation program is designed to:

Attract and retain qualified management;

Enhance short-term financial performance; and

Enhance long-term shareholder value.

The total compensation package for our executives includes cash and equity-based compensation. Annual compensation may consist of a base salary, an annual incentive award (bonus), grants of stock options and grants of restricted stock. Our policy is generally to provide a base salary that might fall at or below the median base salary paid to comparable executives, while focusing more on incentive compensation that is linked to the performance of the Corporation.

During 2002, the Corporation hired an independent consultant to review the Corporation's annual compensation package for the CEO and other executive officers. This consultant generated a report (the

Report) that provided information regarding the annual compensation (including base salaries and bonus), long-term compensation (including stock options) and total compensation for the CEO, and the consultant provided information regarding the compensation of other executive officers, as compared to persons employed by certain other peer financial institutions. The Report also set forth the threshold, target and maximum amounts of each such component of compensation. In general, the Compensation Committee used the information provided by the consultant to maintain levels of total annual cash compensation for 2002 (salary and potential bonus amounts, each as discussed below) that fell at or slightly below the targets.

The peer financial institutions considered by the consultant represent eleven publicly-traded financial institutions with assets from \$2.4 billion to \$4.1 billion. The institutions included in the Report are not necessarily the same group of institutions that comprise the peer group in the Performance Graph contained elsewhere in this Proxy Statement.

Base Salaries. Generally, the Compensation Committee determines the level of base salary for the CEO and the Corporation's other executive officers and salary ranges for all other personnel, in each case based on competitive norms derived from periodic reports of consultants, such as that described above, as well as annual surveys published by several independent banking institutes or private companies specializing in financial analysis of financial institutions. The Compensation Committee also considers employment agreements, if any, which entitle executives to certain salaries and other benefits. Actual salary changes are based upon a written evaluation of each individual's performance based on numerous criteria and the weighing of such criteria using a previously established formula. In addition, with respect to each executive, including the CEO, the Compensation Committee considers the individual's performance, including that individual's total level of experience in the banking industry, his record of performance and contribution to our success relative to his job responsibilities and his overall service to us. During 2002, the Compensation Committee accepted the recommendation of the CEO to increase 2002 base salaries for our executive officers, with a four percent increase for Mr. Bratton, Mr. James and Mr. Rownd.

Bonuses. We also maintain the Annual Incentive Plan for executive officers, from which performance-oriented bonuses may be paid to certain key executive officers in any given year. The Compensation Committee annually determines the executive officers eligible to participate in the Annual Incentive Plan. In general, those executives that are considered to have major policy input with respect to the Corporation, or who are in a position to generate a major impact on our earnings, are selected to participate in the Annual Incentive Plan. The formula for the Annual Incentive Plan was revised for 2002, with the formula being based on Earnings Per Share (EPS), as opposed to return on assets and pre-tax earnings which were previously utilized. Actual bonuses paid pursuant to the Annual Incentive Plan are based on EPS for the Corporation at fiscal year end. No bonuses may be paid unless we reach minimum performance goals, determined at the beginning of each year.

Under the Annual Incentive Plan, the Compensation Committee annually establishes a target bonus pool amount for each participating executive, which is equal to a given percentage of the base salary of that executive. The percentages are determined based on the executive's relative responsibilities and ability to impact the financial and operating performance of the Corporation. At year-end, the Compensation Committee reviews the Corporation's financial performance as it relates to EPS, and determines the actual amounts available to be awarded to participants. An executive's bonus is based 100% upon the achievement of EPS goals. The executive receives compensation based upon a comparison of actual EPS as they relate to budgeted amounts. During 2002, we achieved an EPS goal of \$1.30, which resulted in a bonus payout equal to 100% of the targeted bonus attributable to EPS goals. An additional 25% of the executive's bonus may be paid to the executive, in the discretion of the Compensation Committee, based on the participant's individual performance. When evaluating the performance of a participant, the Compensation Committee considers the Corporation's actual operating performance (such as increased sales and revenues, growth in assets, reduced levels of past due loans, reduced levels of non-performing and restructured loans, improvements in asset quality and

corresponding reductions in provision amounts, increased noninterest income and continued control of corporate expenses) in relation to its targeted long range action plan and the executive's ability to impact the various components of that plan. Other criteria considered include the executive's initiative, contribution to overall corporate performance and managerial ability. During 2002, the Compensation Committee awarded additional compensation to the CEO, as well as Mr. Bratton, Mr. James and Mr. Rownd for their performance.

Equity Based Compensation. The final component of an executive's annual compensation consists of stock options and restricted stock awards. This equity-based compensation is designed to be a long-term incentive for executives to enhance shareholder value. We maintain the Comprehensive Stock Option Plan and the Omnibus Stock Option Plan pursuant to which we may grant stock options (both incentive stock options and non-qualified stock options) to key employees. The Compensation Committee administers the Comprehensive Stock Option Plan and the Omnibus Stock Option Plan in its sole discretion, including the determination of the individuals to whom options will be granted, the terms on which those options are granted and the number of shares subject to the options. In general, when determining the key employees to whom options shall be granted, the Compensation Committee considers an employee's relative job responsibilities and abilities to impact the financial and operating performance of the Corporation.

When granting options, the Compensation Committee considers a formula whereby the aggregate value of options granted is based on a percentage of base salary. The percentages of base salaries, in turn, are determined based on the relative positions of the executives with the Corporation. Through this process, the Compensation Committee has made grants of stock options to executive officers during 2002.

In addition to the Comprehensive Stock Option Plan and the Omnibus Stock Option Plan, we maintain the 1999 ESPP pursuant to which options are granted periodically to all eligible employees of the Corporation, including executive officers, at an exercise price equal to not less than 85% of the fair market value of the stock at the date of grant. The number of shares subject to options granted to each eligible employee, including executive officers, is determined based on base salary levels of such employees. During 2002, grants were made pursuant to the terms of the plan.

We also maintain the First Charter Restricted Stock Award Program (the Restricted Stock Program) administered by the Compensation Committee. The Compensation Committee administers the Restricted Stock Program in its sole discretion, including the determination of the individuals to whom restricted shares shall be awarded, the number of shares to be awarded, the restrictions to be applicable to such restricted shares, and all other terms of the awards. During 2002, no restricted stock awards were granted.

Effective December 1, 2000, the Corporation approved and adopted a non-qualified compensation deferral arrangement called the First Charter Option Plan Trust (the OPT Plan). The OPT Plan is a tax-deferred capital accumulation plan. Under the OPT Plan, eligible participants may elect to defer all of their base salary and bonus and receive options on mutual fund investments. In addition, the Corporation may grant participants bonus options in lieu of cash bonuses. Participants are offered the opportunity to direct an administrative committee to invest in separate investment funds with distinct investment objectives and risk tolerances. Eligible employees for the OPT Plan include executive management as well as selected key members of senior management.

The CEO and executive officers each have a supplemental executive retirement plan agreement in place to replace income lost as a result of restrictions for highly compensated employees and IRS limitations. A calculation was made for each executive based on age, length of service and anticipated length of time to retirement, and access to these funds is restricted, based on terms outlined in each agreement.

Other. In addition to the above forms of compensation, we also provide group term life insurance for our employees, including executive officers. Executive officers generally also participate in the Retirement Savings Plan or 401(k), pursuant to which (i) an eligible employee may elect to defer between 1% and 15% of compensation; (ii) we contribute quarterly a match of 50 cents for each dollar contributed, up to 6% of pay; (iii) we may contribute annually a discretionary matching amount as determined by the Board of Directors from time to time, allocated to participants' accounts in proportion to their elective deferrals up to 6%, for such year; and (iv) we may contribute annually a discretionary, non-elective contribution as determined by the Board of Directors, from time to time, allocated to eligible employees, including executive officers, based upon their eligible compensation. Finally, certain of our executives, including the CEO, are parties to employment agreements which include change in control agreements that provide for continued salary, bonus and benefits for a certain period of time upon termination of employment following a change in control of the Corporation, and certain executive officers may be a party to salary continuation agreements.

Compensation of Chief Executive Officer. The Board of Directors determines the CEO's compensation based on recommendations of the Compensation Committee. The CEO's compensation is divided into three segments, base salary, annual incentive and long term incentive. The base salary segment represents an evaluation by the Compensation Committee and usually results in a merit increase comparable to the level of personal performance of the CEO as measured against certain factors agreed to by the CEO and the Compensation Committee. Factors considered by the Compensation Committee in recommending the CEO's 2002 base salary included the financial performance of the Corporation and the advancement of the Corporation's long-term strategic goals. During 2002, the CEO's base salary increased to \$350,000 from \$300,000. The annual incentive segment of the CEO's compensation is based on the Annual Incentive Plan and is calculated in the same manner as described under the Bonuses section of this report. Based on this calculation, the CEO earned a cash bonus of \$218,750 during 2002 pursuant to the Annual Incentive Plan. The long term incentive segment of the CEO's compensation is awarded in the same manner as described in the Equity Based Compensation section of this report. The total compensation for the CEO in 2002 was somewhat below market for comparable executives as set forth in the Report. Since the CEO's compensation remains below the average for comparable companies, the Compensation Committee will continue to monitor the total shortfall during 2003.

Submitted by the Compensation Committee of the Board of Directors:

William R. Black
J. Roy Davis, Jr.
Frank H. Hawfield, Jr.
Charles A. James

Walter H. Jones, Jr.
Jerry E. McGee
Thomas R. Revels

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION IN COMPENSATION DECISIONS

Walter H. Jones, Jr., a member of the Compensation Committee, is a Partner in the law firm of Homesley, Jones, Gaines, Dudley, McLurkin & Donaldson, PLLC. That firm has been engaged from time to time by the Corporation for representation in various matters involving collections and foreclosures. Michael R. Coltrane, a member of the Compensation Committee until November 2002, served as Executive Vice President of the Corporation and FCB until 1988. Samuel C. King, Jr., a member of the Compensation Committee until November 2002, is the President of King's Office Supply, Inc. During 2002, the Corporation purchased an aggregate of \$91,981 of office products and furniture from King's Office Supply, Inc. See Certain Relationships and Related Transactions.

PERFORMANCE GRAPH

Set forth below is a line graph comparing the cumulative total shareholder return on the Common Stock with (i) the Standard & Poor's 500 Stock Index, a broad equity market index, (ii) the SNL Southeast Bank Index, a published banking industry index that includes banks located in Alabama, Arkansas, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia, and (iii) the peer group utilized by the Corporation in its Proxy Statement for the 2002 Annual Meeting (the "Historical Peer Group"), assuming in each case, the investment of \$100 on December 31, 1997 and reinvestment of dividends. The Historical Peer Group consisted of eleven banks primarily located in the eastern United States with assets between \$2 billion and \$12 billion, including Corus Bankshares, Mid-America Bancorp, S&T Bancorp, United Bankshares, Keystone Financial, Ocwen Financial, City Holding Company, Riggs National, First United Bancshares, Hancock Holding Company and First Citizens Bancshares. As a result of the reduced number of banks in the Historical Peer Group, due to mergers, the Corporation has determined that the use of the SNL Southeast Bank Index will present a more thorough comparison of the Corporation's performance with its peer institutions. In accordance with SEC regulations, both the Historical Peer Group and the SNL Southeast Bank Index are presented in the following graph this year. The SNL Southeast Bank Index will be used in future years.

**FIRST CHARTER CORPORATION
FIVE-YEAR PERFORMANCE INDEX**

Index	Period Ending					
	12/31/97	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02
First Charter Corporation	100.00	68.42	61.18	64.10	80.17	84.45
S&P 500	100.00	128.55	155.60	141.42	124.63	96.95
Historical Peer Group	100.00	85.49	62.14	69.35	85.00	89.74
SNL Southeast Bank Index	100.00	106.46	83.77	84.12	104.79	115.76

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

FCB has had, and expects to have in the future, banking transactions in the ordinary course of business with directors, officers and principal shareholders of the Corporation and its subsidiaries and their associates. All loans and commitments included in these transactions were made and are expected to be made on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other borrowers and did not and are not expected to involve more than the normal risk of collectibility or present other unfavorable features.

In the opinion of management, each of the following transactions was on terms no more or less favorable than those prevailing at the time for comparable transactions with unaffiliated parties.

On June 29, 2000, the Corporation and James B. Burt, III, a director of the Corporation, entered into a Separation and Consulting Agreement terminating Mr. Burt's employment with the Corporation and his prior employment agreements with the Corporation and its successors (the Burt Agreement). Pursuant to the Burt Agreement, Mr. Burt will serve as a consultant to the Corporation on a part-time basis until July 31, 2007, unless the consultancy is terminated earlier. Mr. Burt advises the Corporation on its business, customers, products and services, and he remains under the terms of an ongoing non-competition agreement with the Corporation both during the term of the Burt Agreement and for a two-year period following the termination or end of the Burt Agreement. In 2002, Mr. Burt received \$201,503 for his consulting services. In addition, pursuant to the Burt Agreement, through July 2002, the Corporation provided Mr. Burt with the same or similar general group health and life insurance benefits he received immediately prior to the termination of his employment.

During 2001, the Corporation decided to upgrade its service offerings to include an automatic overdraft product, which allows customers the ability to overdraw their account and have their transactions honored for a fee. During the fourth quarter of 2001, the Corporation engaged Impact Financial Services (Impact) to provide this product. Impact will receive a fee from the Corporation equal to 15 percent of the incremental income from this new product for a twenty-four month period commencing the fourth full month after the Corporation began to offer the product. John J. Godbold, Jr., a director of the Corporation, is the president and owner of Godbold Financial Associates, Inc. (GFA), which acts as an independent sales representative for Impact for Maryland, North Carolina, South Carolina and Virginia and as such GFA and Mr. Godbold will receive commissions from Impact based on fees earned by Impact. Management believes that this transaction is at arms-length. Pursuant to the Corporation's conflict of interest policy for directors and executive officers, the members of the Corporation's Board of Directors who did not have a direct or indirect interest in the related party transaction, reviewed this related party transaction and determined that it was fair to the Corporation and subsequently approved and ratified the transaction. As described above, no fees were required to be paid to Impact until the fourth full month following introduction of the new product, therefore, no fees were payable to Impact and no commissions were payable to GFA and Mr. Godbold until March 2002. In 2002, the Corporation received revenues of approximately \$4.9 million of incremental income from this product, which resulted in fees of \$627,000 to Impact and resulted in Impact paying commissions to GFA and Mr. Godbold of \$439,000.

Samuel C. King, Jr., a director of the Corporation, is the President of King's Office Supply, Inc., an office products retailer. During 2002, the Corporation purchased an aggregate total of \$91,981 of office products and furniture from King's Office Supply, Inc.

RATIFICATION OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

We have appointed KPMG LLP, independent certified public accountants, as our auditors for 2003. KPMG LLP has acted in this capacity since 1983. We have been advised by KPMG LLP that neither the firm nor any of its members or associates has any direct financial interest or material indirect financial interest in the Corporation or our subsidiaries other than as its auditors. Although the selection

and appointment of the independent auditors is not required to be submitted to a vote, we deem it advisable to obtain your ratification of this appointment. We understand that a representative from KPMG LLP will be present at the Annual Meeting, will have the opportunity to make a statement if he or she desires to do so and will be available to respond to appropriate questions.

The fees billed by KPMG LLP for services rendered to the Corporation for the year 2002 were as follows:

Audit Fees	\$ 188,000

Financial Information Systems Design and Implementation Fees	\$

All Other Fees:	
Audit related fees (1)	\$ 82,560
Other non-audit fees (2)	\$245,806

Total All Other Fees	\$ 328,366

(1) Audit related fees includes audits of financial statements of employee benefit plans, internal control reports, attestation engagements for regulatory purposes, review of registration statements and issuance of consents, and consultation and research on miscellaneous accounting matters.

(2) Other non-audit fees include tax compliance and planning services.

The Audit Committee has considered whether the provision of the services under the captions Financial Information Systems Design and Implementation Fees and All Other Fees above is compatible with maintaining KPMG LLP's independence. **We recommend a vote FOR ratification of the appointment of this firm as independent auditors of the Corporation for 2003.** If you do not ratify the appointment of KPMG LLP, we will consider a change in auditors for the next fiscal year.

ANNUAL REPORT

Our Summary 2002 Annual Report and Form 10-K for the fiscal year ended December 31, 2002, including financial statements, accompany this Proxy Statement.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based upon our records, we believe that all Section 16 filing requirements of our directors and executive officers have been complied with on a timely basis for 2002 except that: The Corporation filed in an untimely manner a Form 4 reporting a stock option exercise for Messrs. Bratton and Kimbrough; and the Corporation filed in an untimely manner a Form 4 reporting the receipt of Common Stock units pursuant to the Deferred Compensation Plan for Messrs. Coltrane, Davis, Hawfield, Jones, McGee, Morrison and Revels.

SHAREHOLDER PROPOSALS

We anticipate that our 2004 Annual Meeting of Shareholders will be held on April 20, 2004. The deadline for submission of shareholder proposals pursuant to Rule 14a-8 under the Exchange Act for inclusion in our proxy statement for the 2004 Annual Meeting of Shareholders would be November 14, 2003. Additionally, we must receive notice of any shareholder proposal to be submitted at the 2004 Annual Meeting of Shareholders (but not required to be included in our proxy statement) by January 28, 2004, or such proposal will be considered untimely pursuant to Rules 14a-4 and 14a-5(e) under the Exchange Act and the persons named in the proxies solicited by us may exercise discretionary voting authority with respect to such proposal.

HOUSEHOLDING OF ANNUAL MEETING MATERIALS

The Securities and Exchange Commission's rule concerning the delivery of annual reports and proxy statements permits registrants to send a single set of these reports to any household at which two or more shareholders reside if the registrant believes they are members of the same family. Each shareholder will continue to receive a separate proxy card. The procedure, referred to as householding, reduces the volume of duplicate information shareholders receive and reduces the expense to the Corporation. The Corporation has not implemented this householding rule with respect to its record holders; however, a number of brokerage firms have instituted householding which may impact certain beneficial owners of Common Stock. If your family has multiple accounts by which you hold the Common Stock, you may have previously received a householding information notification from your broker. Please contact your broker directly if you have any questions, require additional copies of the Proxy Statement or annual report, or wish to revoke your decision to household, and thereby receive multiple reports. Those options are available to you at any time.

FORM 10-K

A COPY OF THE CORPORATION'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2002, AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION, EXCLUDING EXHIBITS, IS ATTACHED TO THIS PROXY STATEMENT MAILED TO SHAREHOLDERS, AND COPIES ARE AVAILABLE WITHOUT CHARGE UPON WRITTEN REQUEST TO FIRST CHARTER CORPORATION, POST OFFICE BOX 37937, CHARLOTTE, NORTH CAROLINA 28237-7937, ATTENTION: ROBERT O. BRATTON, CHIEF FINANCIAL OFFICER. COPIES OF EXHIBITS ARE AVAILABLE UPON PAYMENT OF \$25.00 TO COVER THE COSTS OF REPRODUCTION.

OTHER BUSINESS

We know of no other matter to come before the meeting. However, if any other matter requiring a vote of the shareholders should arise, it is the intention of the persons named in the enclosed proxy to vote such proxy in accordance with their best judgement.

By Order of the Board of Directors,

/s/ Anne C. Forrest

Anne C. Forrest
Vice President and Corporate Secretary

March 13, 2003

FIRST CHARTER CORPORATION
Audit Committee Charter

As approved for amendment by the First Charter Corporation Board of Directors on July 24, 2002.

Purpose

The Audit Committee is appointed by the Board of Directors (the Board) of First Charter Corporation (the Company) to assist the Board in fulfilling its oversight responsibilities. The Audit Committee's primary duties and responsibilities are to:

Monitor the integrity of the financial statements of the Company,

Monitor compliance by the Company with legal and regulatory requirements,

Monitor the independence and performance of the Company's internal and external auditors, and

Provide an avenue of communication among the independent auditors, management, the internal auditing department, and the Board. The Audit Committee shall have the authority to conduct any investigation appropriate to fulfilling its responsibilities, and to retain special legal, accounting or other consultants, at the Company's expense, to advise the Committee. The Audit Committee may request any officer or employee of the Company, any subsidiary of the Company, the Company's outside counsel, or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee. The Audit Committee may also meet with the Company's investment bankers or financial analysts who follow the Company.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor.

Composition and Meetings

The members of the Audit Committee shall meet the independence and experience requirements of NASDAQ, free from any relationship that would interfere with the exercise of his or her independent judgement. All members of the Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, and at least one member of the Committee shall have past employment experience in finance or accounting, requisite certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication.

The members of the Audit Committee shall be appointed by the Board on the recommendation of the Executive Committee. Membership of the Audit Committee shall consist of not less than three (3) independent directors as determined by the Board.

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. The Committee should meet privately in executive session at least annually or more frequently as necessary with management, the director of the internal auditing department, the independent auditors, and as a committee to discuss any matters that the Committee or each of these groups believes should be discussed. In addition, the Committee, or at least its Chair, should communicate, as necessary, with management and/or the independent auditor quarterly to review the Company's financial statements and significant findings based upon the auditors limited review procedures. The Audit Committee shall make regular reports to the Board.

The Chairman of the Committee shall appoint a member of the internal audit staff to act as Secretary to the Committee and may appoint an Assistant Secretary.

Responsibilities and Duties

The Audit Committee shall:

1. Review and reassess the adequacy of the Charter annually and recommend any proposed changes to the Board for approval and have the document published at least every three years in accordance with SEC regulations.
2. Review the annual audited financial statements with management, the independent auditors and internal auditors, including major issues regarding accounting and auditing principles and practices as well as the adequacy of internal controls that could significantly affect the Company's financial statements.
3. Review with management and the independent auditor any significant financial reporting issues and judgements made in connection with the preparation of the Company's financial statements, including an analysis of the effect of alternative GAAP methods on the Company's financial statements and a description of any transactions as to which management obtained Statement on Auditing Standards No. 50 letters.
4. Review with management and the independent auditor the Company's quarterly financial results prior to the release of quarterly earnings, including the results of the independent auditors' reviews of the quarterly financial results, and if necessary, before the filing of its Form 10-Q. Discuss any significant changes to the Company's accounting principles and any items required to be communicated by the independent auditor in accordance with the Statement on Auditing Standards (SAS) No. 61. The Chair of the Committee may represent the entire Audit Committee for purposes of this review.
5. Consider the independent auditors' judgements about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.
6. Meet periodically with management to review the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
7. Recommend to the Board the selection and appointment of the independent auditor, which firm is ultimately accountable to the Audit Committee and the Board.
8. Approve the fees and other significant compensation to be paid to the independent auditor for audit services.
9. Approve the retention of the independent auditor for any non-audit service and the fee for such service.
10. Meet with the independent auditor prior to the audit to review the planning, staffing and approach of the audit.
11. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit. Review with the independent auditor any problems or difficulties the auditor may have encountered, including any disagreements with management, and any management letter provided by the auditor and the Company's response to that letter, including the status of previous recommendations.
12. Ensure its receipt from the external auditors of a formal written statement delineating all relationships between the auditor and the Company, consistent with Independence Standards Board Standard No. 1, actively engaging in a dialogue with the external auditor with respect to any disclosed

relationships or services that may impact the objectivity and independence of the external auditor, and taking, or recommending that the full Board take, appropriate action to oversee the independence of the external auditor.

13. Review the experience and qualifications of the senior members of the independent auditor team and the firm's quality control procedures, including any matters of audit quality and consistency.
14. Review and approve the Company's hiring of employees of the independent auditor who were engaged on the Company's account.
15. Review and approve the appointment and replacement of the chief internal audit officer (the Chief Auditor). Review the performance of the Chief Auditor on an annual basis to coincide with the annual review of other officers of the Company and report the results of such review to the Compensation Committee of the Board for action in accordance with the Company's salary administration program.
16. Review and approve the internal audit plan, subsequent changes therein, and key audit and business risk considerations, and review and approve the results of the internal audit plan on not less than an annual basis.
17. Review the significant reports to management prepared by the internal auditors together with management's responses and follow-up to these reports.
18. Prepare the report required by the Securities and Exchange Commission to be included in the Company's annual proxy statement.
19. Review with the Company's general counsel or other appropriate personnel, legal matters and other similar loss contingencies that may have a material impact on the Company's financial statements, the Company's compliance policies and any material reports or inquiries received from regulators or governmental agencies.
20. Review examination reports by regulatory agencies or governmental agencies together with management's responses to such reports, including any employee complaints or published reports, which raise material issues regarding the Company's financial statements or accounting policies. Review and recommend to the Board, approval of management's response, if any has been required, prior to the response being issued to the regulators or as otherwise determined by the Committee.
21. Review with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
22. Review with management, internal audit and the independent auditor that the Company's subsidiary entities are in conformity with applicable legal requirements and the Company's Code of Conduct policy, including disclosures of insider and affiliated party transactions.
23. Perform other oversight functions as requested by the Board of Directors.