

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**  
SEC Accession No. **0000950152-96-006158**

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### FILER

#### CHARTER ONE FINANCIAL INC

CIK: **819692** | IRS No.: **341567092** | State of Incorpor.: **DE** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **000-16311** | Film No.: **96665646**  
SIC: **6035** Savings institution, federally chartered

Mailing Address  
1215 SUPERIOR AVENUE  
1215 SUPERIOR AVENUE  
CLEVELAND OH 44114

Business Address  
1215 SUPERIOR AVE  
CLEVELAND OH 44114  
2165665300

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

-----

FORM 10-Q

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

For the quarterly period ended September 30, 1996

OR

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

Commission file number 0-16311

CHARTER ONE FINANCIAL, INC.

-----  
(exact name of registrant as specified in its charter)

DELAWARE

34-1567092

-----  
(State or other jurisdiction of incorporation  
or organization)

-----  
(I.R.S. Employer  
Identification No.)

1215 SUPERIOR AVENUE, CLEVELAND, OHIO

44114

-----  
(Address of principal executive offices)

-----  
(Zip Code)

(216) 566-5300

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

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since report)

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days.

Yes X No  
---- ----

The number of shares outstanding of the registrant's sole class of common  
stock as of November 11, 1996 was 46,605,804.

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PART I - FINANCIAL CONDITION

ITEM 1. FINANCIAL STATEMENTS

CHARTER ONE FINANCIAL, INC. AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
 (unaudited)

<CAPTION>

SEPTEMBER 30, 1996      DECEMBER 31, 1995  
 -----  
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

ASSETS

	<C>	<C>
Cash and deposits with banks .....	\$ 125,441	163,123
Federal funds sold and other .....	165,237	495,248
	-----	-----
Total cash and cash equivalents .....	290,678	658,371
Investment securities available for sale, at fair value .....	330,485	407,427
Mortgage-backed securities:		
Available for sale, at fair value .....	25,466	1,435,589
Held to maturity (fair value of \$4,912,110 and \$3,961,326) .....	4,912,793	3,879,160
Loans held for sale .....	--	4,340
Loans and leases, net .....	7,711,209	6,674,260
FHLB stock .....	199,082	178,136
Premises and equipment .....	107,133	96,581
Accrued interest receivable .....	77,444	73,683
Equipment on operating leases .....	24,516	32,755
Real estate owned .....	12,451	11,991
Goodwill .....	65,879	10,602
Other assets .....	68,949	115,964
	-----	-----
Total assets .....	\$ 13,826,085	13,578,859
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Deposits:		
Checking accounts .....	\$ 822,676	733,962
Money market accounts .....	1,254,041	829,087
Savings accounts .....	894,479	1,007,178
Certificates of deposit .....	4,777,096	4,442,264
	-----	-----
Total deposits .....	7,748,292	7,012,491
FHLB advances .....	3,193,721	3,163,144
Reverse repurchase agreements .....	1,539,564	2,089,520
Other borrowings .....	208,386	209,020
Advance payments by borrowers for taxes and insurance .....	38,749	47,738
Accrued interest payable .....	42,438	56,955
Accrued expenses and other liabilities .....	144,149	155,593

Total liabilities .....	12,915,299	12,734,461
Shareholders' equity:		
Preferred stock - \$.01 par value per share; 20,000,000 shares authorized and unissued .....	--	--
Common stock - \$.01 par value per share; 180,000,000 shares authorized; 47,472,486 and 45,119,014 shares issued .....	475	451
Additional paid-in capital .....	321,991	235,889
Retained earnings .....	606,089	642,197
Less 709,184 and 101,488 shares of common stock held in treasury at cost	(25,513)	(3,061)
Net unrealized gain (loss) on securities, net of tax (expense) benefit of \$(4,173) and \$15,978 .....	7,744	(31,078)
Total shareholders' equity .....	910,786	844,398
Total liabilities and shareholders' equity .....	\$ 13,826,085	13,578,859

</TABLE>

See Notes to Consolidated Financial Statements

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<TABLE>

CHARTER ONE FINANCIAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(unaudited)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995	1996	1995
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)			
<S>	<C>	<C>	<C>	<C>
INTEREST INCOME:				
Loans and leases.....	\$ 151,510	140,876	443,845	414,917
Mortgage-backed securities:				
Available for sale.....	2,090	4,432	10,902	17,575
Held to maturity.....	88,634	106,115	261,047	325,766
Investment securities available for sale.....	5,325	19,758	16,375	47,218
Other interest-earning assets.....	6,768	5,601	16,886	20,213
Total interest income.....	254,327	276,782	749,055	825,689
INTEREST EXPENSE:				
Deposits.....	85,332	88,476	241,129	264,138
FHLB advances.....	46,741	44,338	137,858	132,384
Other borrowings.....	25,075	66,099	81,980	197,149
Total interest expense.....	157,148	198,913	460,967	593,671
Net interest income.....	97,179	77,869	288,088	232,018
Provision for loan and lease losses.....	1,001	258	3,001	774
Net interest income after provision for loan and lease losses.....	96,178	77,611	285,087	231,244
OTHER INCOME:				
Loan servicing fees.....	3,463	2,067	8,485	6,657
Service fees and other charges.....	9,761	7,020	24,955	19,321
Leasing operations.....	1,697	2,080	5,204	5,437
Net gains (losses):				
Loans.....	1,459	354	1,770	1,112
Mortgage-backed securities.....	(1,476)	(48)	(1,758)	(25)
Investment securities.....	1	2,622	(2,024)	6,009
Other gains.....	(55)	335	403	1,284
Other.....	125	196	344	769
Total other income.....	14,975	14,626	37,379	40,564
ADMINISTRATIVE EXPENSES:				
Compensation and employee benefits.....	23,784	21,770	68,434	65,936
Net occupancy and equipment.....	6,831	6,292	19,615	18,521
Federal deposit insurance premiums.....	4,488	4,592	12,571	13,014
State taxes.....	1,971	1,563	5,937	4,669
Amortization of goodwill.....	1,121	197	1,500	581
Other administrative expenses.....	9,690	9,345	30,475	29,068

Administrative expenses before federal deposit insurance special assessment.....	47,885	43,759	138,532	131,789
Federal deposit insurance special assessment.....	56,258	-	56,258	-
Total administrative expenses.....	104,143	43,759	194,790	131,789
Income before federal income taxes.....	7,010	48,478	127,676	140,019
Federal income taxes.....	1,979	16,371	42,825	47,557
Net income.....	\$ 5,031	32,107	84,851	92,462
Earnings per common and common equivalent share(1).....	\$ .11	.66	1.77	1.92
Average common and common equivalent shares outstanding(1).....	47,910,025	48,349,733	48,059,540	48,229,571
Cash dividends declared per share(1).....	\$ .22	.18	.63	.52

<FN>

(1) Restated to reflect the 5% stock dividend issued September 30, 1996.

</TABLE>

See Notes to Consolidated Financial Statements

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<TABLE>

CHARTER ONE FINANCIAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
(unaudited)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TREASURY STOCK	NET UNREALIZED GAIN (LOSS) ON SECURITIES	TOTAL SHAREHOLDERS' EQUITY
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance, January 1, 1996.....	\$ 451	235,889	642,197	(3,061)	(31,078)	844,398
Purchase of 933,900 shares of treasury stock.....				(32,344)		(32,344)
Treasury stock reissued in connection with employee benefit plans, 352,174 shares.			(7,465)	10,869		3,404
Common stock issued in connection with stock options exercised, 101,409 shares.....	1	1,391				1,392
Dividends paid (\$.63 per share).....			(29,678)			(29,678)
5% stock dividend paid, 2,253,630 shares.....	23	84,711	(83,816)	(977)		(59)
Change in net unrealized gain (loss) on securities, net of tax (expense) benefit.....					38,822	38,822
Net income.....			84,851			84,851
Balance, September 30, 1996.....	\$ 475	321,991	606,089	(25,513)	7,744	910,786

</TABLE>

See Notes to Consolidated Financial Statements

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<TABLE>

CHARTER ONE FINANCIAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

<CAPTION>

NINE MONTHS ENDED SEPTEMBER 30,

	1996	1995
	(DOLLARS IN THOUSANDS)	
<S>	<C>	<C>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income.....	\$ 84,851	92,462
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan and lease losses.....	3,001	774
Net (gains) losses.....	1,609	(8,380)
Accretion of discounts, amortization of premiums, amortization of goodwill and depreciation, net.....	4,952	16,696
Origination of loans held for sale.....	(52,887)	(97,534)
Proceeds from sale of loans held for sale.....	54,657	101,222
Change in deferred federal income taxes.....	35	45,059
Increase in federal deposit insurance special assessment liability.....	56,258	-
Other.....	13,234	1,843
	-----	-----
Net cash provided by operating activities.....	165,710	152,142
	-----	-----
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net principal disbursed on loans and leases.....	(1,529,263)	(70,047)
Proceeds from principal repayments and maturities of:		
Mortgage-backed securities held to maturity.....	586,711	480,327
Mortgage-backed securities available for sale.....	20,176	23,467
Investment securities available for sale.....	158,149	9,129
Sales of mortgage-backed securities available for sale.....	832,401	146,514
Sales of investment securities available for sale.....	240,520	655,681
Purchases of:		
Mortgage-backed securities held to maturity.....	(569,577)	(63,670)
Mortgage-backed securities available for sale.....	-	(2,440)
Investment securities available for sale.....	(326,252)	(1,343,905)
Loans.....	-	(73,173)
Federal Home Loan Bank stock.....	(15,842)	(1,498)
Equipment on operating lease.....	(7,256)	(19,700)
Net cash and cash equivalents received in connection with branch acquisition.	731,170	(9,857)
Other.....	(9,276)	3,336
	-----	-----
Net cash provided by (used in) investing activities.....	111,661	(265,836)
	-----	-----
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in short-term borrowings.....	(741,954)	455,479
Proceeds from long-term borrowings.....	2,491,105	2,376,836
Repayments of long-term borrowings.....	(2,268,376)	(2,570,832)
Increase in, net of acquisitions:		
Deposits.....	(59,565)	(133,755)
Advance payments by borrowers for taxes and insurance.....	(8,989)	(7,211)
Payment of dividends on common stock.....	(29,737)	(20,990)
Purchase of treasury stock, net of options exercised.....	(28,940)	(5,680)
Common shares issued.....	1,392	-
	-----	-----
Net cash provided by (used in) financing activities.....	(645,064)	93,847
	-----	-----
Net decrease in cash and cash equivalents.....	(367,693)	(19,847)
Cash and cash equivalents, beginning of the period.....	658,371	341,935
	-----	-----
Cash and cash equivalents, end of the period.....	\$ 290,678	322,088
	=====	=====
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for interest on deposits and borrowings.....	\$ 483,587	509,080
Cash paid for income taxes.....	34,000	3,981
<b>SUPPLEMENTAL SCHEDULE OF NONCASH ACTIVITIES:</b>		
Securities transferred from available for sale to held to maturity.....	1,064,722	
Securities transferred from held to maturity to available for sale - due to credit deterioration.....	10,680	
Transfers from loans to real estate owned.....	1,902	3,752
Loans exchanged for mortgage-backed securities.....	510,435	28,260

</TABLE>

See Notes to Consolidated Financial Statements

CHARTER ONE FINANCIAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

1. The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Charter One Financial, Inc. ("the Company" or "Charter One") 1995 Annual Report to Shareholders. The interim financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the periods presented. Such adjustments are of a normal recurring nature. The results of operations for the interim periods disclosed herein are not necessarily indicative of the results that may be expected for a full year.
2. On September 30, 1996, legislation passed that imposes a one-time assessment of 65.7 basis points on the amount of deposits held at March 31, 1995 by Savings Association Insurance Fund ("SAIF") member institutions, including Charter One Bank F.S.B., a wholly owned subsidiary of Charter One Financial. Charter One's assessment amounted to \$56.3 million and the full amount is a component of administrative expenses for the three months and nine months ended September 30, 1996. The assessment, which must be paid by November 29, 1996, is being made to recapitalize the SAIF to the required level of 1.25% of insured deposits. The current deposit insurance rate of 23 basis points of deposits is expected to be reduced due to the one-time assessment and is estimated to be 6.5 basis points of deposits. The expected reduction in expense for the year ended December 31, 1997, based on the Bank's September 30, 1996 deposit base, is estimated to be \$12.8 million which, after considering the cost of funding the assessment, is expected to increase earnings per share between \$.13 and \$.15 for 1997.
3. During the third quarter, legislation was passed that repealed Section 593 of the Internal Revenue Code for taxable years beginning after December 31, 1995. Section 593 allowed thrift institutions, including Charter One, to use the percentage-of-taxable income bad debt accounting method, if more favorable than the specific charge-off method, for Federal income tax purposes. The excess reserves (deduction based on the percentage-of-taxable income less the deduction based on the specific charge-off method) accumulated post-1987 are required to be recaptured ratably over a six-year period beginning in 1996. The recapture has no effect on the Company's statement of operations as taxes were provided for in prior years in accordance with SFAS 109, "Accounting for Income Taxes." The timing of this recapture may be delayed for a one or two-year period to the extent that Charter One originates more residential loans than the average originations in the past six years. Charter One will meet the origination requirement for 1996 and, therefore, will delay recapture at least until the six-year period beginning in 1997. The recapture amount of \$17.1 million will result in payments totaling \$6.0 million which has been previously accrued. The same legislation forgave the tax liability on pre-1987 accumulated bad debt reserves which would have penalized any thrift choosing to adopt a bank charter because the tax would have become due and payable. The unrecorded potential liability that was forgiven approximated \$60 million.
4. On June 28, 1996, the Company completed the acquisition of First Nationwide Bank's 21 branch offices in the Detroit Metropolitan area. Four First Nationwide offices directly overlapped existing branch offices and therefore were consolidated into the existing branch facilities. The deposits of the branches totaled \$796.7 million and were assumed for a cost of \$57.0 million. Such cost has been reflected as goodwill in the accompanying financial statements.
5. On July 24, 1996, the Company's Board of Directors approved a 5% stock dividend which was distributed September 30, 1996, to shareholders of record on September 13, 1996. Par value will remain at \$.01 per share. All references to the number of shares and per share amounts have been restated to reflect the effect of the stock dividend. On October 16, 1996, the Company declared a quarterly cash dividend of 23 cents per common share which represents a 5% increase from last quarter when the Company paid 21.9 cents after adjusting for the 5% stock dividend. The cash dividend will be payable on November 18, 1996 to shareholders of record as of November 1, 1996.
6. On January 1, 1996, the Company adopted Statement of Financial Accounting Standard ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." This Statement requires that long-lived assets and certain identified intangibles held and used by an entity, along with goodwill related to those assets, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss must be recognized if the estimate of the future cash flows (undiscounted and without interest charges) resulting from the use of the asset and its eventual disposition is less than the carrying amount of the asset. The adoption of this Statement has not had a material effect on the Company's financial condition or results of operations.

7. On January 1, 1996, the Company also adopted SFAS No. 122, "Accounting for Mortgage Servicing Rights." SFAS No. 122 amends SFAS No. 65, "Accounting for Certain Mortgage Banking Activities," to require that a company recognize, as a separate asset, rights to service mortgage loans for others, regardless of how those servicing rights are acquired. A company that acquires mortgage servicing rights through either the purchase or origination of mortgage loans and sells or securitizes those loans with the servicing rights retained should allocate the total cost of the mortgage loans to the mortgage servicing rights and the loans (without the mortgage servicing rights) based upon their relative values, if it is practicable to estimate those fair values. This Statement also requires that a company periodically assess its capitalized mortgage servicing rights for impairment based upon the fair value of those rights. The adoption of this Statement has not had a material effect on the Company's financial condition or results of operations. SFAS 122 will be superseded by SFAS 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" ("SFAS 125"), as described in Note 9, effective January 1, 1997.
8. Effective January 1, 1996, Charter One adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which prescribes financial accounting and reporting standards for stock-based employee compensation plans. The Statement defines a fair value based method of accounting for employee stock options or similar equity instruments and encourages all entities to adopt that method of accounting for all employee stock compensation plans. However, the Statement also allows an entity to continue to measure compensation cost for these plans using an intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25 ("APB No. 25"). Entities electing to retain the accounting treatment under APB No. 25 must make pro forma footnote disclosures of net income and earnings per share as if the fair value based method of accounting defined in this Statement has been applied. Management has elected to continue using the APB No. 25 accounting method and include pro forma disclosures when presenting complete financial statement footnotes in the future.
9. In June 1996, the FASB issued SFAS 125. SFAS 125 amends portions of SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities," amends and extends to all servicing assets and liabilities the accounting standards for mortgage servicing rights now in SFAS 65, and supersedes SFAS 122. The Statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. Those standards are based upon consistent application of a financial components approach that focuses on control. The Statement also defines accounting treatment for servicing assets and other retained interests in the assets that are transferred. SFAS 125 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after December 31, 1996 and is to be applied prospectively. Management has not completed the process of evaluating SFAS No. 125 and therefore has not determined the impact, if any, that adopting this statement will have on the financial position and results of operations.
10. On October 31, 1995, Charter One completed a merger of equals with FirstFed Michigan Corporation ("FirstFed") which was accounted for as a pooling of interests and, accordingly, the financial statements for the Company for all periods prior to the merger have been restated to include the results of FirstFed. FirstFed was the holding company for First Federal of Michigan ("First Federal"), a \$7.7 billion savings and loan headquartered in Detroit, Michigan. The merger was effected through the issuance of 1.2 shares (not adjusted for subsequent stock dividend) of Company common stock for each share of FirstFed common stock resulting in the issuance of 22,506,201 shares (not adjusted for subsequent stock dividend).
11. Certain items in the consolidated financial statements for 1995 have been reclassified to conform to the 1996 presentation.



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

HOLDING COMPANY BUSINESS

GENERAL

Charter One Financial, Inc. ("Charter One" or the "Company") is a unitary savings and loan holding company incorporated in Delaware and is the parent company of Charter One Bank, F.S.B. ("Charter One Bank" or the "Bank"), a federally chartered stock savings bank headquartered in Cleveland, Ohio. The bank has 172 branch locations: 94 branches in Ohio operating under the name Charter One Bank and 78 branches in Michigan under the name First Federal of Michigan ("First Federal"). The two-state branch franchise was created through a merger of equals transaction in October 1995 when FirstFed Michigan Corporation was combined with Charter One ("the Merger").

RESULTS OF OPERATIONS

PERFORMANCE OVERVIEW

The Company reported net income for the three months ended September 30, 1996 of \$5.0 million. This net income was adversely affected by an after-tax charge of \$37.1 million which resulted from a special assessment relating to the Savings Association Insurance Fund ("SAIF") on September 30, 1996. This special assessment was levied by an act of Congress in an effort to recapitalize the SAIF to the required level of 1.25% of insured deposits. The current deposit insurance rate of 23 basis points of deposits is expected to be reduced due to the one-time assessment and is estimated to be 6.5 basis points of deposits. The expected reduction in expense for the year ended December 31, 1997, based on the Bank's September 30, 1996 deposit base, is estimated to be \$12.8 million which, after considering the cost of funding the assessment, is estimated to increase earnings per share between \$.13 and \$.15.

Exclusive of this SAIF assessment, earnings were \$42.2 million, or \$.88 per share, in the third quarter of 1996 as compared to \$32.1 million, or \$.66 per share, in the third quarter of 1995. This increase was attributable to increases in net interest income and recurring fee income which were partially offset by increased loan loss provisions, lower gains on sale of securities and higher administrative expenses.

Net income for the nine months ended September 30, 1996 was \$84.9 million, or \$1.77 per share, as compared to \$92.5 million, or \$1.92 per share, for the comparable period in 1995. This decrease of \$7.6 million was attributable to the SAIF assessment at September 30, 1996. Excluding this special assessment, earnings for the nine months ended September 30, 1996 were \$122.0 million, an increase of \$29.5 million over the same period in 1995. This increase was attributable to increases in net interest income and recurring fee income which were partially offset by increased loan loss provisions, lower gains on sale of securities and higher administrative expenses.

Net income for both the current quarter and the year-to-date periods increased over the comparable 1995 periods as a result of overall improvement in categories described by industry practice as core earnings. Core earnings are recurring in nature. As Figure 1 illustrates, core earnings would exclude nonrecurring items such as gains and losses on sales of assets, merger-related expenses and the federal deposit insurance special assessment. The pretax core earnings for the current quarter were \$18.1 million higher, or 40.1%, than the third quarter of 1995 as net interest income increased by \$19.3 million, or 24.8%.

<TABLE>  
 QUARTERLY EARNINGS SUMMARY (Figure 1)  
 <CAPTION>

	THREE MONTHS ENDED				
	9/30/96	6/30/96	3/31/96	12/31/95	9/30/95
	(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>
Net interest income.....	\$ 97,179	98,907	92,002	85,798	77,869

Provision for loan and lease losses.....	(1,001)	(1,000)	(1,000)	(258)	(258)
Other income, excluding gains and losses.....	15,046	12,680	11,262	12,283	11,363
Administrative expenses, excluding merger-related costs and the SAIF assessment.....	(47,885)	(46,064)	(44,583)	(46,426)	(43,759)
Pretax core earnings.....	63,339	64,523	57,681	51,397	45,215
Gains and losses, net.....	(71)	(2,115)	577	(100,683)	3,263
Merger-related costs.....	-	-	-	(37,528)	-
Federal deposit insurance special assessment.....	(56,258)	-	-	-	-
Income before federal income taxes....	7,010	62,408	58,258	(86,814)	48,478
Federal income taxes.....	1,979	21,038	19,808	(28,384)	16,371
Net income.....	\$ 5,031	41,370	38,450	(58,430)	32,107
Earnings per common and common equivalent share.....	\$ .11	.86	.80	(1.24)	.66

</TABLE>

The increase in earnings in the third quarter of 1996 contributed to an 18.07% annualized return on average equity and a 1.23% annualized return on average assets (excluding the SAIF special assessment). This compares to third quarter 1995 annualized returns of 14.42% and .86%, respectively. These annualized returns and other selected ratios are set forth in Figure 2.

<TABLE>  
SELECTED OPERATING RATIOS (Figure 2)  
<CAPTION>

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	9/30/96 <C>	9/30/95 <C>	9/30/96 <C>	9/30/95 <C>
Annualized returns (excluding the SAIF special assessment):				
Return on average assets.....	1.23%	.86%	1.21%	.83%
Return on average equity.....	18.07	14.42	17.73	14.20
Average equity to average assets.....	6.78	5.99	6.84	5.83
Annualized operating ratios (excluding the SAIF special assessment):				
Net interest income to administrative expenses.....	202.94	177.95	207.96	176.05
Administrative expenses to average assets.....	1.39	1.18	1.38	1.18
Efficiency ratio.....	41.67	48.82	41.90	49.66
Annualized returns:				
Return on average assets.....	.15	.86	.84	.83
Return on average equity.....	2.16	14.42	12.33	14.20
Average equity to average assets.....	6.78	5.99	6.84	5.83
Annualized operating ratios:				
Net interest income to administrative expenses.....	93.31	177.95	147.90	176.05
Administrative expenses to average assets.....	3.03	1.18	1.94	1.18
Efficiency ratio.....	91.80	48.82	59.10	49.66

</TABLE>

#### NET INTEREST INCOME

Net interest income is the principal source of earnings for the Company. It is affected by a number of factors including the level, pricing and maturity of interest-earning assets and interest-bearing liabilities, as well as interest rate fluctuations and asset quality.

Figure 3 sets forth information concerning Charter One's interest-earning assets, interest-bearing liabilities, net interest income, interest rate spreads and net yield on average interest-earning assets during the periods indicated (including fees which are considered adjustments to yields). Average balance

calculations are based on daily balances.

<TABLE>  
AVERAGE BALANCES, INTEREST RATES AND YIELDS/COSTS (Figure 3)

THREE MONTHS ENDED SEPTEMBER 30,						
1996			1995			
	AVERAGE BALANCE	INTEREST	AVG. YIELD/ COST	AVERAGE BALANCE	INTEREST	AVG. YIELD/ COST
	(DOLLARS IN THOUSANDS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:						
Loans and leases(1).....	\$ 7,500,770	\$ 151,510	8.08%	\$ 6,761,863	\$ 140,876	8.33%
Mortgage-backed securities:						
Available for sale.....	109,683	2,090	7.62	273,240	4,432	6.49
Held to maturity.....	4,977,588	88,634	7.12	5,930,393	106,115	7.16
Investment securities available for sale.....	310,464	5,325	6.86	1,161,173	19,758	6.81
Other interest-earning assets(2).....	418,950	6,768	6.46	333,163	5,601	6.72
Total interest-earning assets	13,317,455	254,327	7.64	14,459,832	276,782	7.66
Allowance for loan losses....	(65,564)			(64,492)		
Noninterest-earning assets(3).	505,961			487,166		
Total assets.....	\$ 13,757,852			\$ 14,882,506		
Interest-bearing liabilities(4):						
Deposits:						
Checking accounts.....	\$ 823,181	2,519	1.22	\$ 666,534	2,451	1.47
Savings accounts.....	916,086	5,568	2.43	1,039,154	6,315	2.43
Money market accounts.....	1,187,879	9,954	3.35	838,359	6,726	3.21
Certificates of deposit.....	4,817,004	67,291	5.59	4,535,073	72,984	6.44
Total deposits.....	7,744,150	85,332	4.41	7,079,120	88,476	5.00
FHLB advances.....	3,227,064	46,741	5.79	2,884,280	44,338	6.15
Other borrowings.....	1,680,699	25,075	5.97	3,770,606	66,099	7.01
Total borrowings.....	4,907,763	71,816	5.85	6,654,886	110,437	6.64
Total interest-bearing liabilities.....	12,651,913	157,148	4.97	13,734,006	198,913	5.79
Non interest-bearing liabilities	173,050			257,749		
Total liabilities.....	12,824,963			13,991,755		
Shareholders' equity.....	932,889			890,751		
Total liabilities and shareholders' equity...	\$ 13,757,852			\$ 14,882,506		
Net interest income.....		\$ 97,179			\$ 77,869	
Interest rate spread.....			2.67			1.87
Net yield on average interest- earning assets(5).....			2.92			2.15
Average interest-earning assets to average interest-bearing liabilities.....			105.26%			105.28%

<FN>

(1) Average balances include nonaccrual loans and interest income includes loan fee amortization.

(2) Includes FHLB stock, federal funds sold, interest-bearing deposits with banks and other.

(3) Includes mark-to-market adjustments on securities available for sale.

(4) The costs of liabilities include the annualized effect of interest rate risk management instruments.

(5) Annualized net interest income divided by the average balance of interest-earning assets.

</TABLE>

<TABLE>  
<CAPTION>

## NINE MONTHS ENDED SEPTEMBER 30,

	1996			1995		
	AVERAGE BALANCE	INTEREST	AVG. YIELD/ COST	AVERAGE BALANCE	INTEREST	AVG. YIELD/ COST
	(DOLLARS IN THOUSANDS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest-earning assets:						
Loans and leases(1).....	\$ 7,266,055	\$ 443,845	8.14%	\$ 6,713,621	\$ 414,917	8.24%
Mortgage-backed securities:						
Available for sale.....	203,070	10,902	7.16	351,552	17,575	6.67
Held to maturity.....	4,875,671	261,047	7.14	6,066,682	325,766	7.16
Investment securities						
available for sale.....	329,624	16,375	6.62	933,883	47,218	6.74
Other interest-earning						
assets(2).....	345,763	16,886	6.51	414,963	20,213	6.49
Total interest-earning assets	13,020,183	749,055	7.67	14,480,701	825,689	7.60
Allowance for loan losses.....	(65,708)			(64,564)		
Noninterest-earning assets(3).	454,085			476,619		
Total assets.....	\$ 13,408,560			\$ 14,892,756		
Interest-bearing liabilities(4):						
Deposits:						
Checking accounts.....	\$ 755,557	7,202	1.27	\$ 661,448	7,347	1.48
Savings accounts.....	925,729	16,778	2.42	1,072,059	19,427	2.42
Money market accounts.....	1,003,378	24,274	3.23	859,762	20,508	3.18
Certificates of deposit.....	4,549,431	192,875	5.65	4,686,257	216,856	6.17
Total deposits.....	7,234,095	241,129	4.44	7,279,526	264,138	4.84
FHLB advances.....	3,238,286	137,858	5.68	2,862,372	132,384	6.17
Other borrowings.....	1,847,788	81,980	5.92	3,646,217	197,149	7.21
Total borrowings.....	5,086,074	219,838	5.76	6,508,589	329,533	6.75
Total interest-bearing						
liabilities.....	12,320,169	460,967	4.99	13,788,115	593,671	5.74
Non interest-bearing liabilities	170,996			236,403		
Total liabilities.....	12,491,165			14,024,518		
Shareholders' equity.....	917,395			868,238		
Total liabilities and						
shareholders' equity...	\$ 13,408,560			\$ 14,892,756		
Net interest income.....		\$ 288,088			\$ 232,018	
Interest rate spread.....			2.68			1.86
Net yield on average interest-			2.95			2.14
earning assets(5).....						
Average interest-earning assets						
to average interest-bearing						
liabilities.....			105.68%			105.02%

&lt;FN&gt;

- (1) Average balances include nonaccrual loans and interest income includes loan fee amortization.
- (2) Includes FHLB stock, federal funds sold, interest-bearing deposits with banks and other.
- (3) Includes mark-to-market adjustments on securities available for sale.
- (4) The costs of liabilities include the annualized effect of interest rate risk management instruments.
- (5) Annualized net interest income divided by the average balance of interest-earning assets.

&lt;/TABLE&gt;

Figure 4 sets forth the changes in Charter One's interest income and interest expense resulting from changes in interest rates and the volume of interest-earning assets and interest-bearing liabilities. Changes not solely attributable to volume or rate have been allocated in proportion to the changes due to volume and rate.

<TABLE>  
RATE/VOLUME ANALYSIS (Figure 4)  
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,			NINE MONTHS ENDED SEPTEMBER 30,		
	1996 V. 1995			1996 V. 1995		
	INCREASE (DECREASE) DUE TO			INCREASE (DECREASE) DUE TO		
	RATE	VOLUME	TOTAL	RATE	VOLUME	TOTAL
	----	-----	-----	----	-----	-----
	(DOLLARS IN THOUSANDS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Interest income:						
Loans and leases.....	\$ (4,393)	15,027	10,634	(4,866)	33,794	28,928
Mortgage-backed securities:						
Available for sale..	670	(3,012)	(2,342)	1,216	(7,889)	(6,673)
Held to maturity....	(513)	(16,968)	(17,481)	(948)	(63,771)	(64,719)
Investment securities available for sale...	157	(14,590)	(14,433)	(811)	(30,032)	(30,843)
Other interest-earning assets.....	(226)	1,393	1,167	53	(3,380)	(3,327)
Total.....	(4,305)	(18,150)	(22,455)	(5,356)	(71,278)	(76,634)
Interest expense:						
Checking accounts....	(451)	519	68	(1,116)	971	(145)
Savings accounts.....	1	(748)	(747)	3	(2,652)	(2,649)
Money market.....	311	2,917	3,228	296	3,470	3,766
Certificates of deposit	(10,038)	4,345	(5,693)	(17,786)	(6,195)	(23,981)
FHLB advances.....	(2,661)	5,064	2,403	(11,051)	16,525	5,474
Other borrowings.....	(8,688)	(32,336)	(41,024)	(30,724)	(84,445)	(115,169)
Total.....	(21,526)	(20,239)	(41,765)	(60,378)	(72,326)	(132,704)
Change in net interest income.....	\$ 17,221	2,089	19,310	55,022	1,048	56,070

</TABLE>

Net interest income for the third quarter of 1996 was \$97.2 million, a \$19.3 million, or 24.8%, increase over net interest income for the third quarter of 1995. Net interest income increased primarily due to a lower cost of interest-bearing liabilities. The cost of interest-bearing liabilities was 4.97% in the 1996 period and 5.79% during the 1995 period. This 82 basis points decrease in the cost of interest-bearing liabilities lowered interest expense by \$21.5 million. This improvement was primarily a result of the financial restructuring undertaken in the fourth quarter of 1995 in conjunction with the Merger. That financial restructuring included the termination of \$750 million in interest rate exchange agreements ("swaps") and \$800 million in interest rate cap agreements ("caps"). These off-balance sheet interest rate risk management tools were being used to hedge interest-bearing liabilities which were eliminated in the financial restructuring. At the time they were terminated, they were having an adverse effect on net interest income. Terminating these positions reduced the cost of interest-bearing liabilities in 1996. The interest rate spread was 2.67 % for the three months ended September 30, 1996, compared to 1.87% for the third quarter of 1995. Also, the net yield on interest-earning assets improved to 2.92% for the 1996 period from 2.15% during the 1995 period.

Net interest income for the nine months ended September 30, 1996 was \$288.1 million, a \$56.1 million, or 24.2%, increase over the same period in 1995. This improvement was also primarily attributable to a decrease in the cost of interest-bearing liabilities. The cost of interest-bearing liabilities was 4.99% for the nine months ended September 30, 1996. This was 75 basis points less than the cost for the same period in 1995. The lower cost of interest-bearing liabilities caused interest expense to decrease by \$60.4 million. This lower cost was also a result of the financial restructuring undertaken in the fourth quarter of 1995 in conjunction with the Merger as discussed in the previous paragraph. The reduction in the cost of interest-bearing liabilities was the primary reason the interest rate spread improved to 2.68% for the first nine months of 1996 from 1.86% for the comparable period of 1995. Likewise, the net yield on interest-earning assets improved to 2.95% for the nine months ended

Figure 5 sets forth the Company's yields and costs at period end for the dates indicated.

<TABLE>  
YIELDS AND COSTS AT END OF PERIOD (Figure 5)  
<CAPTION>

	SEPTEMBER 30, 1996	DECEMBER 31, 1995
	(DOLLARS IN THOUSANDS)	
	<C>	<C>
<S>		
Weighted average yield:		
Loans and leases.....	8.06%	8.26%
Mortgage-backed securities.....	7.20	7.27
Investment securities.....	6.98	6.76
Other interest-earning assets.....	6.71	5.86
Total interest-earning assets.....	7.68	7.71
Weighted average cost(1):		
Deposits.....	4.47	4.61
FHLB advances.....	5.80	5.90
Other borrowings.....	6.03	6.08
Total interest-bearing liabilities.....	5.02	5.19
Interest rate spread.....	2.66	2.52
Net yield on interest-earning assets.....	2.93	2.78
Interest-earning assets.....	\$ 13,404,430	13,059,533

<FN>  
-----  
(1) The costs of liabilities include the annualized effect of interest rate risk management instruments.

</TABLE>

<TABLE>  
OTHER INCOME (Figure 6)  
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995	1996	1995
	(DOLLARS IN THOUSANDS)			
	<C>	<C>	<C>	<C>
<S>				
Loan servicing fees.....	\$ 3,463	2,067	8,485	6,657
Service fees and other charges:				
Retail deposit account service charges and fees.....	8,044	5,847	20,012	16,207
Fees on insurance, annuity, and mutual fund sales.....	1,379	794	3,726	2,001
Other branch service fees.....	331	369	1,180	1,081
Miscellaneous.....	7	10	37	32
Total.....	9,761	7,020	24,955	19,321
Leasing operations.....	1,697	2,080	5,204	5,437
Net gains (losses):				
Real estate.....	73	275	402	660
Mortgage-backed securities.....	(1,476)	(48)	(1,758)	(25)
Investment securities.....	1	2,622	(2,024)	6,009
Loans.....	1,459	354	1,770	1,112
Other.....	(128)	60	1	624
Total.....	(71)	3,263	(1,609)	8,380
Other.....	125	196	344	769
Total.....	\$ 14,975	14,626	37,379	40,564
	=====	=====	=====	=====

</TABLE>

#### OTHER INCOME

Other income (as seen in Figure 6 above) for the three months ended September

30, 1996 was \$15.0 million compared to \$14.6 million for the third quarter of 1995. This \$349,000 increase was primarily due to increases in recurring fee income which was partially offset by lower gains on sales. The increase in fee income was primarily attributable to fees from checking accounts, fees on servicing loans for others and brokerage commissions earned by a subsidiary of the Bank. Checking account fees increased as a result of an increase in the number of accounts open at September 30,

1996, compared to September 30, 1995. The reasons for the increase included introducing the Company's checking account programs in Michigan during 1996, with no comparable activity in 1995, and the continuing sales effort in Ohio. Also, the Bank added 17 additional offices in the Detroit, Michigan metropolitan area from First Nationwide Bank at June 28, 1996. In this acquisition, the Bank acquired over 55,000 demand deposit accounts. Loan servicing fees increased due to the higher balance of loans serviced for others resulting from \$330 million of mortgage loans that were sold, with servicing retained, as part of the fourth quarter 1995 financial restructuring and an additional \$510 million in seasoned 15-to-20 year fixed-rate mortgage loans were sold in June 1996 in order to maintain its desired interest rate risk profile. Brokerage commissions were higher in 1996 because brokerage services were only introduced in 1995 and those services were expanded in 1996.

During the third quarter of 1996, \$27.8 million of mobile home loans were sold due to the none core nature of the product. The sale resulted in a gain of \$1.4 million. The gain was offset by a loss of \$1.4 million on the sale of securities primarily attributable to one security sold in response to significant deterioration in creditworthiness.

Other income for the nine months ended September 30, 1996 was \$37.4 million as compared to \$40.6 million for the 1995 period. This \$3.2 million decrease was also primarily due to losses on the sale of investments and mortgage-backed securities during the 1996 period. These losses were partially offset by increases in recurring fee income. The loss on the sale of investment securities was \$2.0 million in the 1996 period as compared to a \$6.0 million gain in 1995. The sales in the 1996 period were executed to purchase higher yielding investments. The loss on sale of mortgage-backed securities was \$1.8 million for the nine months ended September 30, 1996 as compared to a \$25,000 loss in 1995. The loss on sale of mortgage-backed securities in 1996 was primarily attributable to the third quarter sale of one security in response to significant deterioration in creditworthiness. Altogether, net gains and losses on sales caused other income to decrease by \$10.0 million when comparing the two periods. That decrease was partially offset by increases in service fees and other charges and in loan servicing fees. Service fees and other charges increased by \$5.6 million and loan servicing fees increased by \$1.8 million. The primary reasons for the increase in these recurring fee income categories was attributable to fees from checking accounts, fees on servicing loans for others, brokerage commissions earned by a subsidiary of the Bank, and prepayment penalties on payoffs of commercial real estate loans. Checking account fees increased as the number of open demand deposit accounts increased when comparing September 30, 1996 and September 30, 1995. The reasons for the increase in the number of accounts relates to the acquisition of over 55,000 demand deposit accounts when the Bank acquired branches from First Nationwide Bank as of June 28, 1996, the Charter One checking account programs were introduced in Michigan during 1996 with no comparable activity in 1995 and a continuing sales effort in Ohio. Loan servicing fees increased because the balance of loans serviced for others was higher in the 1996 period as \$840 million of mortgage loans were sold with servicing retained since September 30, 1995. As part of the fourth quarter of 1995 financial restructuring, \$330 million in mortgage loans were sold and then in June of 1996 another \$510 million of mortgage loans were sold in order to maintain its desired interest rate risk profile. Also, mortgage loan prepayment penalties increased as a result of a payoff on a \$12.5 million commercial real estate loan in 1996. Brokerage commissions were higher in 1996 because the subsidiary offering brokerage services was a start-up company in 1995 that has expanded operations in 1996.

<TABLE>  
 ADMINISTRATIVE EXPENSES (excluding SAIF special assessment) (Figure 7)  
 <CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>

(DOLLARS IN THOUSANDS)

Compensation and employee benefits.....	\$ 23,784	21,770	68,434	65,936
Net occupancy and equipment.....	6,831	6,292	19,615	18,521
Federal deposit insurance premiums.....	4,488	4,592	12,571	13,014
State taxes.....	1,971	1,563	5,937	4,669
Amortization of goodwill.....	1,121	197	1,500	581
Other administrative expenses.....	9,690	9,345	30,475	29,068
	-----	-----	-----	-----
Administrative expenses before federal deposit insurance special assessment.....	\$ 47,885	43,759	138,532	131,789
	=====	=====	=====	=====
Number of full-time equivalent employees at end of period.....	2,555	2,441	2,555	2,441
Net interest income to administrative expenses.....	202.94%	177.95%	207.96%	176.05%
Administrative expenses to average assets (annualized)..	1.39%	1.18%	1.38%	1.18%
Efficiency ratio.....	41.67%	48.82%	41.90%	49.66%

</TABLE>

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#### ADMINISTRATIVE EXPENSES

As shown in Figure 7, administrative expenses, excluding the SAIF special assessment of \$56.3 million, for the third quarter of 1996 were \$47.9 million as compared to \$43.8 million for the third quarter of 1995 (See Note 2 for information pertaining to the SAIF special assessment.). This increase of \$4.1 million was primarily attributable to increases in compensation and benefits expense and the amortization of goodwill. Overall, administrative expenses remained at favorable levels as illustrated by the Company's 41.7% efficiency ratio for the third quarter of 1996 as compared to 48.8% for the same period in 1995. Compensation and employee benefits expenses increased by \$2.0 million due to increases in the number of employees. Employment has increased as the Bank expanded their operations in the Michigan market. On June 28, 1996, the Bank expanded by 17 branches in the metropolitan Detroit area as the Bank acquired savings deposits and branch offices from First Nationwide Bank. Also, Charter One had subsidiary operations relating to brokerage and insurance sales expand into the Michigan market in 1996. Goodwill amortization was \$924,000 higher in the 1996 third quarter due to the \$57 million of goodwill generated from the First Nationwide branch acquisition.

Administrative expenses, excluding the SAIF assessment, for the nine months ended September 30, 1996 were \$138.5 million as compared to \$131.8 million in the 1995 period (See Note 2 for information pertaining to the SAIF special assessment.). Despite the increase in administrative expenses, the Company's efficiency ratio, excluding the SAIF assessment, for the nine months ended September 30, 1996 improved to 41.9% from 49.7% for the first nine months of 1995. The increases in administrative expenses are primarily due to expanding operations. Compensation and benefits expense increased primarily due to increases in the number of employees as the Bank added the 17 additional offices from First Nationwide on June 28, 1996 and the Bank expanded its subsidiary operations related to brokerage and insurance sales into the Michigan market in 1996. Office occupancy, amortization of goodwill and other administrative expenses increased primarily due to this operational expansion as well. State taxes increased due to higher assessment bases.

#### FEDERAL INCOME TAXES

The federal provision for income taxes for the three months and nine months ended September 30, 1996 decreased by \$14.4 million and \$4.7 million, respectively, over the 1995 periods due to lower pre-tax income for the 1996 periods. The effective tax rates were 28.2% and 33.5% for the three months and nine months ended September 30, 1996 and 33.8% and 34.0% for the three months and nine months ended September 30, 1995.

#### FINANCIAL CONDITION

Figure 8 sets forth information concerning the composition of the Company's assets, liabilities and shareholders' equity at September 30, 1996 and December 31, 1995.

14

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<TABLE>  
 FINANCIAL CONDITION (Figure 8)  
 <CAPTION>

	SEPTEMBER 30, 1996		DECEMBER 31, 1995	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>
<b>Assets:</b>				
Cash and cash equivalents.....	\$ 290,678	2.1%	\$ 658,371	4.9%
Investment securities.....	330,485	2.4	407,427	3.0
Mortgage-backed securities.....	4,938,259	35.7	5,314,749	39.1
Loans and leases, net.....	7,711,209	55.8	6,678,600	49.2
Other assets.....	555,454	4.0	519,712	3.8
Total.....	\$ 13,826,085	100.0%	\$ 13,578,859	100.0%
<b>Liabilities and shareholders' equity:</b>				
Deposits.....	\$ 7,748,292	56.0%	\$ 7,012,491	51.7%
Borrowings.....	4,941,671	35.8	5,461,684	40.2
Other liabilities.....	225,336	1.6	260,286	1.9
Shareholders' equity.....	910,786	6.6	844,398	6.2
Total.....	\$ 13,826,085	100.0%	\$ 13,578,859	100.0%

</TABLE>

OVERVIEW

At September 30, 1996, total assets were \$13.8 billion which was \$247.2 million, or 1.8%, higher than at December 31, 1995. This growth was primarily in the loan and lease portfolio as that portfolio grew by \$1.0 billion, or 15.5%, during the first nine months of 1996. The growth in the loan and lease portfolio was primarily due to record levels of loan originations (see Figure 10). Mortgage-backed securities stood at \$4.9 billion at September 30, 1996 which was \$376.5 million, or 7.1%, lower than at December 31, 1995.

Total deposits were \$7.7 billion at September 30, 1996 which was \$735.8 million, or 10.5%, higher than at December 31, 1995. The primary reason for this deposit growth was the acquisition of First Nationwide Bank's 21 branch offices in the Detroit metropolitan area as of the close of business on June 28, 1996. The deposits acquired in this acquisition totaled \$796.7 million. Four First Nationwide offices directly overlapped existing Michigan branch offices so they were consolidated into existing branch facilities. Borrowings declined by \$520.0 million, or 9.5%, as a portion of the deposits obtained in the First Nationwide acquisition were used to pay down higher cost borrowings.

LOANS AND LEASES

<TABLE>  
 COMPOSITION OF LOANS AND LEASES (Figure 9)  
 <CAPTION>

	SEPTEMBER 30, 1996		DECEMBER 31, 1995	
	AMOUNT	PERCENT OF TOTAL	AMOUNT	PERCENT OF TOTAL
(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>
<b>Real estate:</b>				
One-to-four family.....	\$ 5,769,190	74.8%	\$ 5,140,857	77.0%
Multifamily.....	299,958	3.9	359,056	5.4
Commercial.....	365,190	4.8	368,372	5.5
Construction.....	296,641	3.9	182,863	2.7
Total real estate.....	6,730,979	87.4	6,051,148	90.6
Consumer.....	866,170	11.2	594,609	8.9
Leases.....	217,270	2.8	131,352	2.0
Business.....	94,453	1.2	65,747	1.0
Total loans and leases.....	7,908,872	102.6	6,842,856	102.5
Less net items.....	197,663	2.6	168,596	2.5
Loans and leases, net.....	\$ 7,711,209	100.0%	\$ 6,674,260	100.0%

</TABLE>

The loan and lease portfolio has increased \$1.0 billion, or 15.5%, since December 31, 1995, with growth concentrated in the mortgage and consumer loan portfolio. Real estate mortgage loans grew by \$679.8 million, or 11.2%, and the consumer loan portfolio grew by \$271.6 million, or 45.7%, in the first nine months of 1996 (see Figure 10). One-to-four family loans led the mortgage loan growth and closed-end loans secured by real estate was the primary leader of the consumer loan growth. The expansion into the Michigan market of Charter One's loan product line has been well received as the Michigan Division accounted for approximately 46% of the one-to-four family loan origination volume and 26% of the consumer loan origination volume. The growth in the one-to-four family loan portfolio was achieved despite a \$510.4 million exchange of mortgage loans for FNMA participation certificates in June 1996.

Loan and lease originations and repayments for the 1996 periods increased over the comparable periods in 1995 due, in part, to increases in loan refinancing activity as customers responded to the favorable interest rate environment in 1996. Although refinancing activity was higher early in 1996 than it had been in 1995, it appears the level is declining as the year progresses. The lower levels of refinancing activity should result in lower loan originations in the fourth quarter of 1996.

<TABLE>  
 LOAN AND LEASE ACTIVITY (Figure 10)  
 <CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1996 ----	1995 ----	1996 ----	1995 ----
	(DOLLARS IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Originations:				
Real estate:				
Permanent:				
One-to-four family.....	\$ 620,123	372,565	1,946,722	663,315
Multifamily.....	5,295	7,630	25,367	23,433
Commercial.....	9,993	22,379	56,107	43,033
Total permanent.....	635,411	402,574	2,028,196	729,781
Construction:				
One-to-four family.....	70,397	48,544	242,800	124,404
Multifamily.....	5,760	-	5,910	3,031
Commercial.....	8,600	7,550	15,800	12,422
Total construction.....	84,757	56,094	264,510	139,857
Total real estate loans originated....	720,168	458,668	2,292,706	869,638
Consumer line of credit draws.....	59,985	39,276	142,844	107,799
Consumer.....	91,402	44,624	351,324	100,220
Business line of credit draws.....	17,337	10,237	53,736	26,884
Business.....	8,737	8,647	32,047	16,467
Leases(1).....	60,189	17,557	129,664	47,189
Total loans and leases originated.....	957,818	579,009	3,002,321	1,168,197
Purchases:				
Loans.....	-	-	-	-
Leases(2).....	-	-	-	76,912
Total purchases.....	-	-	-	76,912
Sales and principal reductions:				
Loans sold.....	35,420	62,341	52,887	105,445
Loans exchanged for MBS.....	-	-	510,435	-
Principal reductions.....	398,001	375,390	1,372,983	943,471
Total sales and principal reductions....	433,421	437,731	1,936,305	1,048,916
Increase before net items.....	\$ 524,397	141,278	1,066,016	196,193

<FN>

(1) Not included herein are \$2.7 and \$2.4 million in operating leases originated during the three months ended September 30, 1996 and 1995, respectively, and \$7.3 million and \$19.7 million for the nine months ended September 30, 1996

and 1995.

(2) Not included herein are \$29.0 million in operating leases purchased in the acquisition of ICX Corporation which occurred in the first quarter of 1995.  
</TABLE>

INVESTMENT SECURITIES

The entire investment securities portfolio was classified as available for sale at both September 30, 1996 and December 31, 1995. Figure 11 summarizes the fair values of the portfolio at those dates.

<TABLE>  
INVESTMENT SECURITIES PORTFOLIO (Figure 11)  
<CAPTION>

	SEPTEMBER 30, 1996	DECEMBER 31, 1995
	(DOLLARS IN THOUSANDS)	
<S>	<C>	<C>
U.S. Treasury and agency securities.....	\$ 310,415	377,232
Corporate notes and commercial paper.....	17,648	30,033
Other.....	2,422	162
	-----	-----
Total.....	\$ 330,485	407,427
	=====	=====
Weighted average rate.....	6.98%	6.76%
	=====	=====

</TABLE>

MORTGAGE-BACKED SECURITIES

Figure 12 summarizes the mortgage-backed securities ("MBS") portfolios at September 30, 1996 and December 31, 1995. The amounts reflected represent the fair values of securities available for sale and the amortized cost of securities held to maturity.

<TABLE>  
MORTGAGE-BACKED SECURITIES (Figure 12)  
<CAPTION>

	SEPTEMBER 30, 1996	DECEMBER 31, 1995
	(DOLLARS IN THOUSANDS)	
<S>	<C>	<C>
MBS available for sale:		
Participation certificates:		
Government agency issues.....	\$ 16,123	347,539
Private issues.....	-	116
Collateralized mortgage obligations:		
Government agency issues.....	1,620	619,104
Private issues.....	7,723	468,830
	-----	-----
Total MBS available for sale.....	\$ 25,466	1,435,589
	-----	-----
MBS held to maturity:		
Participation certificates:		
Government agency issues.....	\$ 2,242,827	2,662,782
Private issues.....	431,284	498,631
Collateralized mortgage obligations:		
Government agency issues.....	862,458	263,721
Private issues.....	1,376,224	454,026
	-----	-----
Total MBS held to maturity.....	\$ 4,912,793	3,879,160
	-----	-----
Total MBS.....	\$ 4,938,259	5,314,749
	=====	=====

</TABLE>

<TABLE>  
MORTGAGE-BACKED SECURITIES BY PAYMENT TYPE (Figure 13)  
<CAPTION>

	SEPTEMBER 30, 1996		DECEMBER 31, 1995	
	BOOK VALUE	AVERAGE RATE	BOOK VALUE	AVERAGE RATE
	(DOLLARS IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
MBS available for sale:				
Adjustable rate:				
Collateralized mortgage obligations.....	\$ 7,723	7.18%	\$ 1,085,208	7.23%
Fixed rate:				
Participation certificates.....	16,123	6.16	347,655	6.23
Collateralized mortgage obligations.....	1,620	5.09	2,726	5.30
Total fixed rate.....	17,743	6.09	350,381	6.22
Total MBS available for sale.....	25,466	6.45	1,435,589	6.98
MBS held to maturity:				
Adjustable rate:				
Participation certificates.....	1,072,019	7.09	1,279,124	7.08
Collateralized mortgage obligations.....	1,368,184	6.88	357,816	7.48
Total adjustable rate.....	2,440,203	6.97	1,636,940	7.17
Fixed rate:				
Participation certificates.....	1,602,092	7.58	1,882,289	7.56
Collateralized mortgage obligations.....	870,498	7.16	359,931	7.32
Total fixed rate.....	2,472,590	7.43	2,242,220	7.52
Total MBS held to maturity.....	4,912,793	7.20	3,879,160	7.37
Total MBS.....	\$ 4,938,259	7.20%	\$ 5,314,749	7.27%

</TABLE>

As previously disclosed, on December 31, 1995 management chose to reclassify \$1.1 billion of MBS from the held to maturity portfolio to available for sale in accordance with the FASB special report, "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities." It was also disclosed that, after a sufficient period of market value risk, management intended to reclassify these same securities back to the held to maturity portfolio. This reclassification occurred on January 31, 1996, and resulted in a \$42.2 million after-tax increase in shareholders' equity. In January of 1996, \$326.1 million of available for sale securities were sold for total proceeds of \$324.0 million. The loss of \$2.2 million was recorded at the trade date in December 1995. Purchases of mortgage-backed securities during the nine months of 1996 totaled \$567.1 million and were primarily medium-term, fixed-rate collateralized mortgage obligations.

In July 1996, the Bank sold \$510.4 million of FNMA fixed-rate participation certificates which were made up of seasoned 15- to 30-year fixed-rate mortgage loans originated by the Bank and swapped to FNMA for participation certificates in June 1996. The sale resulted in a \$289,000 net loss and recognition of \$2.7 million of originated mortgage servicing rights, both of which were recorded on the trade date in June 1996. Recognition of the servicing rights was in accordance with Statement of Financial Accounting Standards No. 122 "Accounting for Mortgage Servicing Rights" which Charter One adopted as of January 1, 1996.

In September 1996, the Bank reclassified \$10.9 million of mortgage-backed securities from held to maturity to available for sale in response to significant deterioration in the issuer's creditworthiness uncovered during a routine review of the portfolio. Subsequently, \$8.1 million of these securities were sold for a loss of \$1.4 million, which was recorded in the third quarter of 1996.

## ASSET QUALITY

<TABLE>  
ANALYSIS OF THE ALLOWANCE FOR LOAN AND LEASE LOSSES (Figure 14)  
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1996 ----	1995 ----	1996 ----	1995 ----
	(DOLLARS IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Balance, beginning of period.....	\$ 65,268	64,405	64,436	64,838
Provision for loan and lease losses.....	1,001	258	3,001	774
Other.....	-	-	-	176
Loans and leases charged off:				
Mortgage.....	(504)	(183)	(1,484)	(996)
Consumer.....	(114)	(222)	(531)	(954)
Leases.....	-	-	-	-
Business.....	(2)	(1)	(3)	(1)
Total charge-offs.....	(620)	(406)	(2,018)	(1,951)
Recoveries:				
Mortgage.....	10	220	102	570
Consumer.....	52	14	190	40
Leases.....	-	-	-	-
Business.....	-	1	-	45
Total recoveries.....	62	235	292	655
Net loan and lease charge-offs.....	(558)	(171)	(1,726)	(1,296)
Balance, end of period.....	\$ 65,711	64,492	65,711	64,492
Net charge-offs to average loans and leases (annualized).....	.03%	.01%	.03%	.03%

<TABLE>  
ALLOCATION OF ALLOWANCE FOR LOAN AND LEASE LOSSES (Figure 15)  
<CAPTION>

	SEPTEMBER 30, 1996 DECEMBER 31, 1995	
	-----	-----
	(DOLLARS IN THOUSANDS)	
<S>	<C>	<C>
Mortgage.....	\$ 52,727	51,607
Consumer.....	7,053	7,214
Leases.....	916	732
Business.....	5,015	4,883
Total.....	\$ 65,711	64,436
Percent of loans and leases to ending loans and leases:		
Mortgage.....	84.8%	88.3%
Consumer.....	11.2	8.8
Leases.....	2.8	.9
Business.....	1.2	2.0
Total.....	100.0%	100.0%

The allowance for loan and lease losses as a percentage of ending loans and leases (before the allowance) was .84% at September 30, 1996, down from .96% at December 31, 1995, reflecting third quarter loan growth. Credit quality remained high, with nonperforming assets at only .37% of total assets at September 30, 1996. Net charge-offs totaled \$558,000 and \$1.7 million for the three and nine months ended September 30, 1996, respectively. Net charge-offs for the comparable periods of 1995 were \$171,000 and \$1.3 million.

Management believes that the allowance for loan and lease losses has been established in accordance with generally accepted accounting principles based on the best information available. However, future adjustments to reserves may be necessary and net income could be significantly affected if circumstances and/or economic conditions differ substantially from the assumptions used in making the initial determinations. A downturn in the Ohio or Michigan real estate markets could result in an increased level of nonperforming assets and charge-offs, significant provisions for loan

and lease losses and significant reductions in income. Additionally, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan and lease losses. Such agencies may require the recognition of additions to the allowance based on their judgments of information available to them at the time of their examination.

Figure 16 sets forth information concerning nonperforming assets and the allowance for loan and lease losses. At September 30, 1996, the Bank had no outstanding commitments to lend additional funds to borrowers whose loans were on nonaccrual or restructured status.

<TABLE>  
NONPERFORMING ASSETS (Figure 16)  
<CAPTION>

	SEPTEMBER 30, 1996	DECEMBER 31, 1995
	-----	
	(DOLLARS IN THOUSANDS)	
<S>	<C>	<C>
Nonperforming loans and leases:		
Nonaccrual loans and leases:		
Mortgage loans:		
One-to-four family.....	\$ 9,240	15,145
Multifamily and commercial.....	2,956	3,014
Construction and land.....	1,424	1,463
	-----	-----
Total mortgage loans.....	13,620	19,622
Consumer.....	-	1,525
Lease financings.....	-	27
Business.....	20	-
	-----	-----
Total nonaccrual loans and leases.....	13,640	21,174
	-----	-----
Accruing loans and leases delinquent more than 90 days:		
Mortgage loans:		
One-to-four family.....	6,448	2,002
Multifamily and commercial.....	-	893
Construction and land.....	-	-
	-----	-----
Total mortgage loans.....	6,448	2,895
Consumer.....	635	147
Lease financings.....	69	-
Business.....	-	-
	-----	-----
Total accruing 90-day delinquent loans and leases.....	7,152	3,042
	-----	-----
Restructured real estate loans.....	17,840	18,835
	-----	-----
Total nonperforming loans and leases.....	38,632	43,051
Real estate acquired through foreclosure and other.....	11,939	11,650
	-----	-----
Total nonperforming assets.....	\$ 50,571	54,701
	=====	=====
Ratio of:		
Nonperforming loans and leases to total loans and leases.....	.50%	.65%
Nonperforming assets to total assets.....	.37	.40
Allowance for loan and lease losses to:		
Nonperforming loans and leases.....	170.09	149.67
Total loans and leases before allowance.....	.84	.96

</TABLE>

Nonperforming assets at September 30, 1996 totaled \$50.6 million, down \$4.1 million from December 31, 1995. The ratios of nonperforming loans and leases to total loans and leases declined at September 30, 1996 from December 31, 1995.

At September 30, 1996, there were \$22.4 million of loans not reflected in the table above, where known information about possible credit problems of borrowers caused management to have doubts as to the ability of the borrower to comply with present loan repayment terms and that may result in disclosure of such loans in the future. Included in the total is a \$15.6 million loan on apartment buildings. The apartment building has experienced past cash flow shortfalls, but the loan is current.

## SOURCES OF FUNDS

## GENERAL

Deposits have historically been the most important source of the Bank's funds for use in lending and for general business purposes. The Bank also derives funds from Federal Home Loan Bank ("FHLB") advances, reverse repurchase agreements and other borrowings, principal repayments on loans and mortgage-backed securities, funds provided by operations and proceeds from the sale of loans and loan participations. At September 30, 1996, 61% of interest-bearing liabilities were in the form of deposits and 39% were in borrowings compared with 56% and 44% for deposits and borrowings, respectively, at December 31, 1995.

## DEPOSITS

Deposit inflows and outflows are significantly influenced by general interest rates, market conditions and competitive factors. The Bank reprices its deposits primarily based on competitive conditions. In order to decrease the volatility of its deposits, the Bank imposes stringent early withdrawal penalties on its certificates of deposit. Consumer and commercial deposits are attracted principally within the Bank's primary market areas through the offering of a broad range of deposit instruments.

<TABLE>  
COMPOSITION OF DEPOSITS (Figure 17)  
<CAPTION>

	SEPTEMBER 30, 1996			DECEMBER 31, 1995		
	AMOUNT	WEIGHTED AVERAGE RATE	PERCENT OF TOTAL	AMOUNT	WEIGHTED AVERAGE RATE	PERCENT OF TOTAL
(DOLLARS IN THOUSANDS)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Checking accounts:						
Interest-bearing.....	\$ 528,178	1.87%	6.8%	\$ 513,933	1.98%	7.3%
Noninterest-bearing.....	294,498	-	3.8	220,029	-	3.2
Savings accounts.....	894,479	2.42	11.6	1,007,178	2.41	14.4
Money market accounts.....	1,254,041	3.57	16.2	829,087	3.19	11.8
Certificates of deposit.....	4,774,745	5.78	61.6	4,438,831	5.97	63.3
Deposits.....	7,745,941	4.55	100.0	7,009,058	4.65	100.0
			=====			=====
Plus unamortized premium on deposits purchased.....	2,351			3,433		
Deposits, net.....	\$ 7,748,292			\$ 7,012,491		
	=====			=====		
Weighted average cost including the annualized effect of applicable swaps, floors, and amortization of deferred gains on terminated swaps.....		4.47%			4.61%	
		=====			=====	

</TABLE>

Total deposits were \$7.7 billion at September 30, 1996 which was \$735.8 million, or 10.5%, higher than at December 31, 1995. The primary reason for this deposit growth was the acquisition of First Nationwide Bank's 21 branch offices in the Detroit Metropolitan Area as of the close of business on June 28, 1996. The deposits acquired in this acquisition totaled \$796.7 million. Four First Nationwide offices directly overlapped existing Michigan branch offices so they were consolidated into existing branch facilities. The cost of the First Nationwide deposits was 4.30% which contributed to the overall decline in the cost of deposits to 4.47% at September 30, 1996 from 4.61% at December 31, 1995.

## BORROWINGS

At September 30, 1996, borrowings primarily consisted of FHLB advances and reverse repurchase agreements. These positions were secured by Charter One's investment in the stock of the FHLB, as well as \$4.1 billion in real estate loans and \$2.6 billion in mortgage-backed securities.

<TABLE>  
 FEDERAL HOME LOAN BANK ADVANCES (Figure 18)  
 <CAPTION>

	SEPTEMBER 30, 1996		DECEMBER 31, 1996	
	AMOUNT	WEIGHTED AVERAGE RATE	AMOUNT	WEIGHTED AVERAGE RATE
(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>
Fixed-rate advances .....	\$1,707,715	5.88%	\$1,310,122	5.78%
Variable-rate advances .....	1,486,000	5.59	1,853,000	5.87
Advances .....	3,193,715	5.75	3,163,122	5.84
Unamortized premium .....	6		22	
Total advances, net .....	\$3,193,721		\$3,163,144	
=====				
Weighted average cost including the annualized effect of applicable caps and amortization of deferred gains on terminated swaps .....		5.80%		5.90%
		=====		=====

</TABLE>

The variable-rate advances reprice based upon LIBOR at one- to six-month intervals, and included \$144.5 million with a 6.00% LIBOR cap, and \$572.5 million which are callable, at par, by the FHLB.

Charter One has also entered into stand-alone interest rate cap agreements applicable to certain variable-rate and short-term, fixed-rate FHLB advances. Reference is made to "Interest Rate Risk Management" for additional discussion.

Figure 19 presents a summary of outstanding reverse repurchase agreements. The Bank enters into short-term reverse repurchase agreements for terms up to one year, as well as longer term fixed- and variable-rate agreements.

<TABLE>  
 REVERSE REPURCHASE AGREEMENTS (Figure 19)  
 <CAPTION>

	SEPTEMBER 30, 1996		DECEMBER 31, 1995	
	AMOUNT	WEIGHTED AVERAGE RATE	AMOUNT	WEIGHTED AVERAGE RATE
(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>
Short term.....	\$ 106,079	5.57%	\$ 848,033	5.86%
Long term:				
Fixed rate.....	770,000	5.23	575,000	5.28
Variable rate.....	663,485	5.86	666,487	6.01
Weighted average cost including amortization of fees.....	\$ 1,539,564	5.53	\$ 2,089,520	5.80
=====				
Weighted average cost including the annualized effect of amortization of deferred gains on terminated swaps.....		5.46%		5.68%
		=====		=====

</TABLE>

Each long-term, variable-rate reverse repurchase agreement also contains an interest rate cap provision based upon a three-month LIBOR of 6.00%. Long-term, fixed-rate agreements include \$200 million maturing in 1998 which are convertible, at the counterparty's option, to a floating rate of three-month LIBOR, beginning June 1997 and quarterly thereafter.

#### INTEREST RATE RISK MANAGEMENT

The Company utilizes various types of interest rate contracts in managing its



interest rate risk on certain of its deposits and FHLB advances and reverse repurchase agreements. The Company has utilized fixed fixed payment swaps to convert certain of its floating-rate or short-term, fixed-rate liabilities into longer term, fixed-rate instruments. Under these agreements, the Company has agreed to pay interest to the counterparty on a notional principal amount at a fixed rate defined in the agreement, and receive interest at a floating rate indexed to LIBOR. The amounts of interest exchanged are calculated on the basis of notional principal amounts. The Company also utilizes fixed receipt swaps to convert

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certain of its longer term callable certificates of deposit into short-term variable instruments. Under these agreements the Company has agreed to receive interest from the counterparty on a notional amount at a fixed rate defined in the agreement, and to pay interest at a floating rate indexed to LIBOR.

<TABLE>  
INTEREST RATE SWAPS (Figure 20)  
<CAPTION>

	SEPTEMBER 30, 1996			DECEMBER 31, 1995		
	NOTIONAL PRINCIPAL AMOUNT	RECEIVING INTEREST RATE	PAYING INTEREST RATE	NOTIONAL PRINCIPAL AMOUNT	RECEIVING INTEREST RATE	PAYING INTEREST RATE
	(DOLLARS IN THOUSANDS)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Fixed payment and variable receipt maturing in 1999.....	\$ 100,000	5.77%(a)	10.09%	\$ 100,000	6.02%(a)	10.09%
Variable payment and fixed receipt:						
Maturing in:						
1997.....	\$ 20,000	6.08%	5.56%	\$ 45,000	6.30%	5.63%
1998.....	115,000	6.49	5.59	-	-	-
2000.....	110,000	7.06	5.60	110,000	7.08	5.63
2001.....	120,000	7.30	5.62	-	-	-
Total	\$ 365,000	6.91%	5.60%(a)	\$ 155,000	6.86%	5.63%(a)

<FN>

(a) Rates are based upon LIBOR.  
</TABLE>

The Company also utilizes swaps to hedge a special class of certificates of deposit. These swaps provide for the receipt of variable interest based upon the S&P 500 Index, and the payment of both fixed and variable interest. At September 30, 1996, the notional principal amount outstanding was \$31.1 million with a weighted average receipt rate of 16.63% and payment rate of 5.63%. At December 31, 1995, the outstanding principal was \$24.2 million with receipt and payment rates of 14.28% and 5.85%, respectively.

In 1995, the Company entered into \$300 million of four-year interest rate floor agreements maturing in March 1999, which provide for receipt of interest when six-month LIBOR falls below 6.00%. The Company receives the difference between 6.00% and LIBOR at the time of repricing, calculated on the \$300 million notional amount. At September 30, 1996, interest received based on a 5.80% LIBOR rate was partially offset by a .07% per annum fee cost. Fees paid at inception of the agreements are being amortized over the terms of the agreements. Unamortized fees totaled \$514,000 at September 30, 1996.

The Company has entered into caps with primary dealers to limit its exposure to rising rates on certain of its variable-rate and short-term, fixed-rate liabilities (Figure 21). These stand-alone agreements supplement the cap provisions which have been incorporated into some of the Company's borrowings. The agreements provide for receipt of interest when three-month LIBOR exceeds an agreed upon base rate. The Company receives a rate of interest equal to the excess of three-month LIBOR at the time of repricing over the 6.00% base rate, calculated on a notional principal amount. The agreements reprice quarterly. Fees paid at inception of the agreements are being amortized over the terms of the agreements. Unamortized fees totaled \$820,000 at September 30, 1996.

<TABLE>  
INTEREST RATE CAPS (Figure 21)  
<CAPTION>

SEPTEMBER 30, 1996

DECEMBER 31, 1995

MATURING IN	NOTIONAL PRINCIPAL AMOUNT	BASE RATE	INTEREST RATE RECEIVED	PER ANNUM COST OF FEE	NOTIONAL PRINCIPAL AMOUNT	BASE RATE	INTEREST RATE RECEIVED	PER ANNUM COST OF FEE
(DOLLARS IN THOUSANDS)								
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
1996.....	\$ -	-%	-	-%	\$ 200,000	6.00%	-	.21%
1997.....	650,000	6.00	-	.30	650,000	6.00	-	.30
Total.....	\$ 650,000	6.00%	-	.30%	\$ 850,000	6.00%	-	.28%

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The cost (benefit) of interest rate exchange, cap, floor and collar positions, including amortization of gains and losses on terminated positions, was included in interest expense as follows:

<TABLE>  
COST OF INTEREST RATE RISK MANAGEMENT (Figure 22)  
<CAPTION>

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
Interest expense:				
Deposits .....	\$ (2,491)	6,228	(5,760)	17,066
FHLB advances .....	420	462	1,339	958
Reverse repurchase agreements	(443)	7,828	(1,616)	28,496
Total .....	\$ (2,514)	14,518	(6,037)	46,520

</TABLE>

LIQUIDITY

The Bank's principal sources of funds are deposits, FHLB advances, reverse repurchase agreements, repayments and maturities on loans and securities, proceeds from the sale of securities and funds provided by operations. While scheduled loan, security and interest-bearing deposit amortization and maturities are relatively predictable sources of funds, deposit flows and loan and security prepayments are greatly influenced by economic conditions, the general level of interest rates and competition. The Bank utilizes particular sources of funds based on comparative costs and availability. The Bank generally manages the pricing of its deposits to maintain a steady deposit balance, but has from time to time decided not to pay rates on deposits as high as its competition and, when necessary, to supplement deposits with longer term and/or less expensive alternative sources of funds such as advances. Management also considers the Bank's interest-sensitivity profile when deciding on alternative sources of funds. At September 30, 1996, the Bank's one-year gap was a negative 6.13% of total assets.

The Bank is required by regulation to maintain specific minimum levels of liquid investments. Regulations currently in effect require the Bank to maintain liquid assets at least equal to 5.0% of the sum of its average daily balance of net withdrawable accounts and borrowed funds due in one year or less. This regulatory requirement may be changed from time to time to reflect current economic conditions. The Bank's average regulatory liquidity ratio for the quarter ended September 30, 1996 was 7.13%.

Liquidity management is both a daily and long-term responsibility of management. The Bank adjusts its investments in cash and cash equivalents based upon management's assessment of (i) expected loan and lease demand, (ii) projected security maturities, (iii) expected deposit flows, (iv) yields available on short-term investments, and (v) the objectives of its asset/liability management program. Excess liquidity is invested generally in federal funds sold, interest-bearing deposits and short-term agency and highly rated corporate debt securities. If the Bank requires funds beyond its ability to generate them internally, it has additional borrowing capacity with the FHLB and collateral eligible for reverse repurchase agreements.

The Bank anticipates that it will have sufficient funds available during the

next 12 months to meet current and future loan commitments. At September 30, 1996, the Bank and its subsidiaries had outstanding commitments to originate loans and leases of \$402.6 million, unfunded lines of consumer credit totaling \$412.1 million (a significant portion of which normally remains undrawn) and unfunded lines of commercial (business loans) credit totaling \$27.0 million. Certificates of deposit scheduled to mature in one year or less at September 30, 1996 totaled \$3.5 billion. Management believes that a significant portion of the amounts maturing during the next 12 months will remain with the Bank because they are retail deposits. At September 30, 1996, the Bank had \$1.3 billion of advances from the FHLB and \$281.1 million of reverse repurchase agreements which mature during the next 12 months. Management will review the need for advances and reverse repurchase agreements when they mature and believes the Bank has significant additional borrowing capacity.

#### CAPITAL AND DIVIDENDS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain actions by regulators that, if undertaken, could have a direct

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material effect on the Company's financial statements. The regulations require the Bank to meet specific capital adequacy guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory practices. The Bank's capital classification is also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by the regulators to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of tangible, core and total risk-based capital. Prompt Corrective Action regulations require specific supervisory actions as capital levels decrease. To be considered adequately capitalized under the regulatory framework for Prompt Corrective Action, the Bank must maintain minimum Tier 1 leverage, Tier 1 risk-based and total risk-based capital ratios as set forth in Figure 23 below. The Bank's actual capital and ratios are also presented in Figure 23.

<TABLE>  
REGULATORY CAPITAL (Figure 23)  
<CAPTION>

	SEPTEMBER 30, 1996			
	ACTUAL CAPITAL		REQUIRED CAPITAL	
	AMOUNT	RATIO	AMOUNT	RATIO
	-----			
	(DOLLARS IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Capital adequacy:				
Tangible capital.....	\$ 771,264	5.69%	\$ 203,204	1.50%
Core capital.....	771,264	5.69	406,407	3.00
Risk-based capital.....	828,054	12.22	542,187	8.00
Prompt corrective action:				
Tier 1 leverage capital.....	771,264	5.69	541,876	4.00
Tier 1 risk-based capital.....	771,264	11.38	271,094	4.00
Total risk-based capital.....	828,054	12.22	542,187	8.00

<TABLE>  
<CAPTION>

	DECEMBER 31, 1995			
	ACTUAL CAPITAL		REQUIRED CAPITAL	
	AMOUNT	RATIO	AMOUNT	RATIO
	-----			
	(DOLLARS IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Capital adequacy:				
Tangible capital.....	\$ 822,670	6.11%	\$ 202,027	1.50%
Core capital.....	822,670	6.11	404,053	3.00
Risk-based capital.....	875,176	14.29	489,835	8.00
Prompt corrective action:				
Tier 1 leverage capital.....	822,670	6.11	538,738	4.00
Tier 1 risk-based capital.....	822,670	13.44	244,917	4.00

Total risk-based capital..... 875,176 14.29 489,835 8.00  
 </TABLE>

Management believes that as of September 30, 1996, the Bank meets all capital requirements to which it is subject. Events beyond management's control, such as significant fluctuations in interest rates or a significant downturn in the economy in areas in which the Bank's loans and securities are concentrated, could adversely affect future earnings and, consequently, the Bank's ability to meet its future capital requirements.

<TABLE>  
 QUARTERLY STOCK PRICES AND DIVIDENDS (Figure 24)  
 <CAPTION>

	3RD QUARTER 1996	2ND QUARTER 1996	1ST QUARTER 1996	4TH QUARTER 1995	3RD QUARTER 1995
<S>	<C>	<C>	<C>	<C>	<C>
Market price of common stock(1):					
High.....	\$ 40.56	36.19	33.57	31.79	29.29
Low.....	32.03	29.34	27.14	26.79	23.22
Close.....	40.00	33.22	32.14	29.17	28.10
Dividends declared and paid.....	.22	.22	.19	.19	.18

<FN>  
 (1) Restated to reflect the 5% stock dividend issued September 30, 1996.  
 </TABLE>

During the fourth quarter of 1994, the Board of Directors of the Company authorized management to repurchase up to 1.2 million shares (unadjusted for subsequent stock dividend) of the Company's common stock. Shares repurchased under this authorization are held in treasury and are available for issuance upon the exercise of stock options or for other corporate purposes. As of June 30, 1996, all of the shares had been repurchased under this authorization.

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On May 15, 1996, the Board of Directors of the Company authorized management to repurchase 5% of the Company's outstanding common stock in an additional buyback program. As of that date, the Company had 47,354,637 common shares outstanding (adjusted for subsequent stock dividend).

On July 24, 1996, the Directors of Charter One Financial, Inc. approved a 5% stock dividend which was distributed September 30, 1996, to shareholders of record on September 13, 1996. On October 16, 1996, the Company declared a quarterly cash dividend of 23 cents per common share which represents a 5% increase from last quarter when the company paid 21.9 cents after adjusting for the 5% stock dividend. The cash dividend will be payable on November 18, 1996 to shareholders of record as of November 1, 1996.

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PART II - OTHER INFORMATION

ITEM 5. OTHER INFORMATION

DIVIDEND

On October 16, 1996, the Directors of Charter One Financial, Inc. declared a quarterly cash dividend of 23 cents per common share. The dividend will be payable on November 18, 1996 to shareholders of record as of November 1, 1996.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

- Exhibit 11 - Computation of Per Share Earnings
- Exhibit 27 - Financial Data Schedule
- Exhibit 99 - Selected Monthly Financial Highlights

The company filed a report on Form 8-K dated July 1, 1996 announcing the completion of the purchase of 21 branch offices and approximately \$800 million in deposits in Michigan from First Nationwide Bank, a Federal Savings Bank.

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SIGNATURES

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

CHARTER ONE FINANCIAL, INC.

Date: November 14, 1996

/s/ Robert J. Vana  
-----

Robert J. Vana  
Chief Corporate Counsel and Secretary

Date: November 14, 1996

/s/ Richard W. Neu  
-----

Richard W. Neu  
Senior Vice President and Treasurer

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1  
 <TABLE>  
 EXHIBIT 11  
 <CAPTION>

CHARTER ONE FINANCIAL, INC.  
 COMPUTATION OF PER SHARE EARNINGS

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995	1996	1995
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)			
<S>	<C>	<C>	<C>	<C>
COMPUTATION OF PRIMARY EARNINGS PER SHARE:				
Weighted average number of common shares outstanding.....	46,823,073	47,142,018	47,038,877	47,168,941
Add common stock equivalents for shares issuable under:				
Stock Appreciation Rights Plan(1)....	48,183	52,053	48,515	56,332
Stock Option Plan(1).....	1,038,769	1,155,662	972,148	1,004,298
	-----	-----	-----	-----
Weighted average number of shares outstanding adjusted for common stock equivalents.....	47,910,025	48,349,733	48,059,540	48,229,571
	=====	=====	=====	=====
Net income.....	\$ 5,031	32,107	84,851	92,462
	=====	=====	=====	=====
Primary earnings per share.....	\$ .11	.66	1.77	1.92
	=====	=====	=====	=====
COMPUTATION OF FULLY DILUTED EARNINGS PER SHARE:				
Weighted average number of common shares outstanding.....	46,866,573	47,142,018	47,168,377	47,248,510
Add common stock equivalents for shares issuable under:				
Stock Appreciation Rights Plan(2)....	48,863	52,465	50,026	115,250
Stock Option Plan(2).....	1,250,944	1,236,321	1,089,169	1,195,136
	-----	-----	-----	-----
Weighted average number of shares outstanding adjusted for common stock equivalents.....	48,166,380	48,430,804	48,307,572	48,558,896
	=====	=====	=====	=====
Net income.....	\$ 5,031	32,107	84,851	92,462
	=====	=====	=====	=====
Fully diluted earnings per share.....	\$ .10	.66	1.76	1.90
	=====	=====	=====	=====

<FN>

-----

(1) Additional shares issuable were derived under the "treasury stock method" using average market price during the period.

(2) Additional shares issuable were derived under the "treasury stock method" using the higher of the average market price during the period or the market price at the end of the period.

</TABLE>

<TABLE> <S> <C>

<ARTICLE> 9

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF CHARTER ONE FINANCIAL, INC. AND SUBSIDIARIES AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1996 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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</TABLE>



<TABLE>

CHARTER ONE FINANCIAL, INC.  
SELECTED MONTHLY FINANCIAL HIGHLIGHTS

SELECTED FINANCIAL DATA AT MONTH END

<CAPTION>

	07/31/96 -----	08/31/96 -----	09/30/96 -----
	(DOLLARS IN THOUSANDS)		
<S>	<C>	<C>	<C>
Total assets.....	\$ 13,789,076	13,651,804	13,826,085
Investment securities.....	354,977	330,041	330,485
Mortgage-backed securities.....	5,052,986	5,001,196	4,938,259
Loans receivable.....	7,342,881	7,552,823	7,711,209
Deposits.....	7,722,658	7,769,240	7,748,292
Borrowings.....	4,920,119	4,743,476	4,941,671
Portfolio of loans serviced for others.....	1,580,817	1,559,596	1,536,351
Number of employees (FTEs).....	2,545	2,539	2,555
Deposits:			
Checking.....	\$ 812,769	850,231	822,676
Savings.....	919,163	904,014	894,479
Money market.....	1,144,464	1,209,241	1,254,041
Certificates:			
6 month or less.....	665,550	655,440	647,898
6 month to 1 year.....	1,490,298	1,469,015	1,430,199
Jumbo.....	292,040	275,932	270,658
Other.....	2,398,374	2,405,367	2,428,341
	-----	-----	-----
Total CDS.....	4,846,262	4,805,754	4,777,096
	-----	-----	-----
Total deposits.....	\$ 7,722,658	7,769,240	7,748,292
	=====	=====	=====
Borrowings:			
Reverse repurchase agreements.....	\$ 1,464,976	1,439,456	1,539,564
FHLB advances.....	3,245,928	3,095,743	3,193,721
Other.....	209,215	208,277	208,386
	-----	-----	-----
Total borrowings.....	\$ 4,920,119	4,743,476	4,941,671
	=====	=====	=====
Weighted average rates at period end:			
Loans.....	8.04%	8.07%	8.06%
MBS.....	7.21%	7.19%	7.20%
Loans and MBS.....	7.71%	7.72%	7.73%
Other investments.....	6.52%	6.93%	6.83%
Total interest-earning assets.....	7.62%	7.69%	7.68%
Deposits.....	4.43%	4.43%	4.47%
Borrowings.....	5.83%	5.85%	5.88%
Total interest-bearing liabilities.....	4.97%	4.97%	5.02%
Interest rate spread.....	2.65%	2.72%	2.66%
Net yield on interest-earning assets.....	2.94%	2.98%	2.93%
Nonperforming assets and allowance for loss:			
Nonperforming loans and leases.....	\$ 19,991*	19,991*	20,792
Restructured loans.....	20,941*	20,941*	17,840
REO and other repossessed assets.....	12,419	12,128	11,939
	-----	-----	-----
Total nonperforming assets.....	\$ 53,351	53,060	50,571
	=====	=====	=====
Allowance for loss.....	\$ 65,548	65,825	65,711

<FN>

\* At June 30, 1996

</TABLE>

<TABLE>  
 SELECTED ACTIVITY FOR THE MONTH AND QUARTER

	7/31/96 -----	8/31/96 -----	9/30/96 -----	3 MONTHS ENDED 9/30/96 -----	9 MONTHS ENDED 9/30/96 -----
	(DOLLARS IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>
Loan and MBS activity:					
Mortgage loan					
originations:					
One-to-four family....	\$ 265,999	250,133	174,388	690,520	2,189,522
Multifamily.....	620	563	9,872	11,055	31,277
Commercial real estate	2,212	2,513	13,868	18,593	71,907
Consumer loan					
originations.....	33,264	33,184	24,954	91,402	351,324
	-----	-----	-----	-----	-----
Total originations..	302,095	286,393	223,082	811,570	2,644,030
Loans sold.....	28,835	3,926	2,659	35,420	52,887
Loans exchanged					
for MBS.....	-	-	-	-	510,435
MBS purchased.....	-	-	-	-	567,104
MBS sold.....	502,128	-	8,085	510,213	836,338
Average yield on					
residential loans					
originated (excludes					
impact of fees and costs					
associated with					
origination).....	7.33%	7.31%	7.35%	7.33%	7.32%
Deposit portfolio activity:					
Net increase (decrease):					
Checking.....	\$ (65,986)	37,462	(27,555)	(56,079)	88,714
Savings.....	(19,896)	(15,149)	(9,535)	(44,580)	(112,699)
Money market.....	13,417	64,777	44,800	122,994	424,954
Certificates:					
6 month or less....	(8,287)	(10,110)	(7,542)	(25,939)	(7,638)
6 month to 1 year...	(2,431)	(21,283)	(38,816)	(62,530)	260,196
Jumbo.....	(2,709)	(16,108)	(5,274)	(24,091)	(199,416)
Other.....	(8,576)	6,993	22,974	21,391	281,690
	-----	-----	-----	-----	-----
Total CDS.....	(22,003)	(40,508)	(28,658)	(91,169)	334,832
	-----	-----	-----	-----	-----
Net increase (decrease)					
in deposits.....	\$ (94,468)	46,582	(20,948)	(68,834)	735,801
	=====	=====	=====	=====	=====
Interest credited to					
deposits included above					
Total increase (decrease)	\$ 11,288	12,572	50,926	74,786	191,941
as a percentage of					
beginning deposits.....	(1.21)%	.60%	(.27)%	(.88)%	10.49%

</TABLE>