FULTON FINANCIAL CORP
Form 10-Q
August 08, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20459

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011, or

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

For the transition period from to

Commission File No. 0-10587

FULTON FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

PENNSYLVANIA	**23-2195389**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
One Penn Square, P.O. Box 4887, Lancaster, Pennsylvania	**17604**
(Address of principal executive offices)	**(Zip Code)**

(717) 291-2411

(Registrant s telephone number, including area code)

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 ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Common Stock, $2.50 Par Value 199,795,000 shares outstanding as of July 29, 2011.

FULTON FINANCIAL CORPORATION

FORM 10-Q FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2011

INDEX

Table of Contents

Item 1. Financial Statements

FULTON FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except per-share data)

	June 30 2011 (unaudited)	December 31 2010
ASSETS		
Cash and due from banks	**$ 284,691**	$ 198,954
Interest-bearing deposits with other banks	**124,967**	33,297
Loans held for sale	**47,133**	83,940
Investment securities:		
Held to maturity (estimated fair value of $7,038 in 2011 and $7,818 in 2010)	**6,990**	7,751
Available for sale	**2,656,054**	2,853,733
Loans, net of unearned income	**11,852,491**	11,933,307
Less: Allowance for loan losses	**(266,683)**	(274,271)
Net Loans	**11,585,808**	11,659,036
Premises and equipment	**207,177**	208,016
Accrued interest receivable	**51,387**	53,841
Goodwill	**535,798**	535,518
Intangible assets	**10,111**	12,461
Other assets	**457,004**	628,707
Total Assets	**$ 15,967,120**	$ 16,275,254
LIABILITIES		
Deposits:		
Noninterest-bearing	**$ 2,445,008**	$ 2,194,988
Interest-bearing	**9,817,887**	10,193,593
Total Deposits	**12,262,895**	12,388,581
Short-term borrowings:		
Federal funds purchased	**166,179**	267,844
Other short-term borrowings	**380,402**	406,233
Total Short-Term Borrowings	**546,581**	674,077
Accrued interest payable	**29,444**	33,333
Other liabilities	**149,354**	179,424
Federal Home Loan Bank advances and long-term debt	**1,025,537**	1,119,450

Total Liabilities	**14,013,811**	14,394,865
SHAREHOLDERS EQUITY		
Common stock, $2.50 par value, 600 million shares authorized, 215.6 million shares issued in 2011 and 215.4 million shares issued in 2010	**538,923**	538,492
Additional paid-in capital	**1,421,626**	1,420,127
Retained earnings	**210,671**	158,453
Accumulated other comprehensive income:		
Unrealized gains on investment securities not other-than-temporarily impaired	**37,227**	22,354
Unrealized non-credit related losses on other-than-temporarily impaired debt securities	**(747)**	(2,355)
Unrecognized pension and postretirement plan costs	**(4,438)**	(4,414)
Unamortized effective portions of losses on forward-starting interest rate swaps	**(3,022)**	(3,090)
Accumulated Other Comprehensive Income	**29,020**	12,495
Treasury stock, 16.2 million shares in 2011 and 16.3 million shares in 2010, at cost	**(246,931)**	(249,178)
Total Shareholders Equity	**1,953,309**	1,880,389
Total Liabilities and Shareholders Equity	**$ 15,967,120**	$ 16,275,254

See Notes to Consolidated Financial Statements

Table of Contents

FULTON FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per-share data)

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	**2011**	2010
INTEREST INCOME				
Loans, including fees	**$ 149,751**	$ 157,628	**$ 299,247**	$ 315,162
Investment securities:				
Taxable	**20,749**	25,146	**42,556**	53,295
Tax-exempt	**3,146**	3,348	**6,321**	6,943
Dividends	**696**	660	**1,379**	1,389
Loans held for sale	**492**	667	**992**	1,223
Other interest income	**101**	231	**134**	256
Total Interest Income	**174,935**	187,680	**350,629**	378,268
INTEREST EXPENSE				
Deposits	**21,775**	31,819	**45,061**	65,557
Short-term borrowings	**168**	390	**422**	939
Long-term debt	**12,347**	16,313	**24,938**	34,105
Total Interest Expense	**34,290**	48,522	**70,421**	100,601
Net Interest Income	**140,645**	139,158	**280,208**	277,667
Provision for credit losses	**36,000**	40,000	**74,000**	80,000
Net Interest Income After Provision for Credit Losses	**104,645**	99,158	**206,208**	197,667
OTHER INCOME				
Service charges on deposit accounts	**14,332**	15,482	**27,637**	29,749
Other service charges and fees	**12,709**	11,469	**24,191**	21,634
Investment management and trust services	**9,638**	8,655	**18,842**	16,743
Mortgage banking income	**6,049**	3,899	**11,512**	8,048
Other	**4,979**	4,503	**9,400**	8,317
Total other-than-temporary impairment losses	**(71)**	(4,334)	**(1,092)**	(9,585)
Less: Portion of (gain) loss recognized in other comprehensive income (before taxes)	**(322)**	836	**(592)**	1,110
Net other-than-temporary impairment losses	**(393)**	(3,498)	**(1,684)**	(8,475)
Net gains on sale of investment securities	**58**	4,402	**3,634**	7,156
Net investment securities gains (losses)	**(335)**	904	**1,950**	(1,319)
Total Other Income	**47,372**	44,912	**93,532**	83,172
OTHER EXPENSES				
Salaries and employee benefits	**56,070**	54,654	**110,378**	106,999

Net occupancy expense	**10,874**	10,519	**22,240**	22,169
Equipment expense	**3,377**	2,663	**6,509**	5,754
FDIC insurance expense	**3,264**	5,136	**8,018**	10,090
Data processing	**3,214**	3,311	**6,586**	6,728
Professional fees	**3,102**	3,035	**5,951**	5,581
Other real estate owned and repossession expense	**2,575**	1,876	**4,545**	4,556
Software	**1,972**	1,706	**4,004**	3,320
Marketing	**1,863**	2,271	**4,699**	4,101
Intangible amortization	**1,172**	1,341	**2,350**	2,655
Other	**14,995**	14,593	**28,761**	29,174
Total Other Expenses	**102,478**	101,105	**204,041**	201,127
Income Before Income Taxes	**49,539**	42,965	**95,699**	79,712
Income taxes	**13,154**	11,283	**25,529**	20,550
Net Income	**36,385**	31,682	**70,170**	59,162
Preferred stock dividends and discount accretion	**0**	(5,066)	**0**	(10,131)
Net Income Available to Common Shareholders	**$ 36,385**	$ 26,616	**$ 70,170**	$ 49,031
PER COMMON SHARE:				
Net income (basic)	**$ 0.18**	$ 0.14	**$ 0.35**	$ 0.27
Net income (diluted)	**0.18**	0.14	**0.35**	0.27
Cash dividends	**0.05**	0.03	**0.09**	0.06

See Notes to Consolidated Financial Statements

Table of Contents

FULTON FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME (UNAUDITED)

SIX MONTHS ENDED JUNE 30, 2011 AND 2010

	Preferred Stock	Common Stock Shares Outstanding	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
				(in thousands)				
Balance at December 31, 2010	$ 0	199,050	$ 538,492	$ 1,420,127	$ 158,453	$ 12,495	$ (249,178)	$ 1,880,389
Comprehensive income:								
Net income					70,170			70,170
Other comprehensive income						16,525		16,525
Total comprehensive income								86,695
Stock issued, including related tax benefits		320	431	398			2,247	3,076
Stock-based compensation awards				1,101				1,101
Common stock cash dividends - $0.09 per share					(17,952)			(17,952)
Balance at June 30, 2011	$ 0	199,370	$ 538,923	$ 1,421,626	$ 210,671	$ 29,020	$ (246,931)	$ 1,953,309
Balance at December 31, 2009	$ 370,290	176,364	$ 482,491	$ 1,257,730	$ 71,999	$ 7,458	$ (253,486)	$ 1,936,482
Comprehensive income:								
Net income					59,162			59,162
Other comprehensive income						27,104		27,104
Total comprehensive income								86,266
Stock issued, including related tax benefits		22,099	54,879	171,929			2,199	229,007
Stock-based compensation awards				611				611
Preferred stock discount accretion	719				(719)			0
Preferred stock cash dividends					(9,412)			(9,412)
Common stock cash dividends - $0.06 per share					(11,743)			(11,743)
Balance at June 30, 2010	$ 371,009	198,463	$ 537,370	$ 1,430,270	$ 109,287	$ 34,562	$ (251,287)	$ 2,231,211

See Notes to Consolidated Financial Statements

5

Table of Contents

FULTON FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six Months Ended June 30	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	**$ 70,170**	$ 59,162
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	**74,000**	80,000
Depreciation and amortization of premises and equipment	**10,462**	10,261
Net amortization of investment securities premiums	**1,999**	1,187
Investment securities (gains) losses	**(1,950)**	1,319
Net decrease (increase) in loans held for sale	**36,807**	(8,120)
Amortization of intangible assets	**2,350**	2,655
Stock-based compensation	**1,101**	611
Decrease in accrued interest receivable	**2,454**	3,752
Decrease (increase) in other assets	**22,955**	(256)
Decrease in accrued interest payable	**(3,889)**	(3,304)
(Decrease) increase in other liabilities	**(11,566)**	3,236
Total adjustments	**134,723**	91,341
Net cash provided by operating activities	**204,893**	150,503
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available for sale	**416,480**	276,691
Proceeds from maturities of securities held to maturity	**160**	227
Proceeds from maturities of securities available for sale	**279,841**	388,152
Purchase of securities held to maturity	**(14)**	(122)
Purchase of securities available for sale	**(356,323)**	(245,875)
Increase in short-term investments	**(91,670)**	(417,096)
Net increase in loans	**(49)**	(28,136)
Net purchases of premises and equipment	**(9,623)**	(11,357)
Net cash provided by (used in) investing activities	**238,802**	(37,516)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand and savings deposits	**229,071**	523,628
Net decrease in time deposits	**(354,757)**	(276,070)
Decrease in short-term borrowings	**(127,496)**	(410,606)
Additions to long-term debt	**0**	45,000
Repayments of long-term debt	**(93,913)**	(220,085)
Net proceeds from issuance of stock	**3,076**	229,007
Dividends paid	**(13,939)**	(19,998)
Net cash used in financing activities	**(357,958)**	(129,124)

Net Increase (Decrease) in Cash and Due From Banks	**85,737**	(16,137)
Cash and Due From Banks at Beginning of Period	**198,954**	284,508
Cash and Due From Banks at End of Period	**$ 284,691**	$ 268,371
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for:		
Interest	**$ 74,310**	$ 103,905
Income taxes	**7,469**	24,039

See Notes to Consolidated Financial Statements

Table of Contents

FULTON FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A Basis of Presentation

The accompanying unaudited consolidated financial statements of Fulton Financial Corporation (the Corporation) have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities as of the date of the financial statements as well as revenues and expenses during the period. Actual results could differ from those estimates. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six-month periods ended June 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The Corporation evaluates subsequent events through the date of filing with the Securities and Exchange Commission (SEC).

NOTE B Net Income Per Common Share and Other Comprehensive Income

The Corporation s basic net income per common share is calculated as net income available to common shareholders divided by the weighted average number of common shares outstanding. Net income available to common shareholders is calculated as net income less accrued dividends and discount accretion related to preferred stock.

For diluted net income per common share, net income available to common shareholders is divided by the weighted average number of common shares outstanding plus the incremental number of shares added as a result of converting common stock equivalents, calculated using the treasury stock method. The Corporation s common stock equivalents consist of outstanding stock options, restricted stock and common stock warrants. As of June 30, 2011, there were no outstanding common stock warrants.

A reconciliation of weighted average common shares outstanding used to calculate basic net income per common share and diluted net income per common share follows.

	Three months ended June 30		**Six months ended June 30**	
	2011	2010	**2011**	2010
	(in thousands)			
Weighted average shares outstanding (basic)	**198,772**	190,221	**198,686**	183,236
Effect of dilutive securities	**755**	606	**721**	557
Weighted average shares outstanding (diluted)	**199,527**	190,827	**199,407**	183,793

For the three and six months ended June 30, 2011, 4.6 million stock options were excluded from the diluted net income per share computation as their effect would have been anti-dilutive. For the three and six months ended June 30, 2010, 4.9 million and 5.2 million stock options, respectively, were excluded from the diluted net income per share computation as their effects would have been anti-dilutive.

Table of Contents

The following table presents the components of other comprehensive income:

	Six months ended June 30 2011	2010
	(in thousands)	
Unrealized gain on securities (net of a $9.2 million and $15.2 million tax effect in 2011 and 2010, respectively)	**$ 17,019**	$ 28,277
Non-credit related unrealized gain (loss) on other-than-temporarily impaired debt securities (net of a $392,000 and $1.2 million tax effect in 2011 and 2010, respectively)	**729**	(2,137)
Unrealized gain on derivative financial instruments (net of a $36,000 tax effect in 2011 and 2010) (1)	**68**	68
(Accretion)/amortization of net unrecognized pension and postretirement items (net of a $12,000 and $20,000 tax effect in 2011 and 2010, respectively)	**(24)**	38
Reclassification adjustment for securities (gains) losses included in net income (net of $682,000 tax expense in 2011 and $461,000 tax benefit in 2010)	**(1,267)**	858
Other comprehensive income	**$ 16,525**	$ 27,104

(1) Amounts represent the amortization of the effective portions of losses on forward-starting interest rate swaps, designated as cash flow hedges and entered into in prior years in connection with the issuance of fixed-rate debt. The total amount recorded as a reduction to accumulated other comprehensive income upon settlement of these derivatives is being amortized to interest expense over the life of the related securities using the effective interest method. The amount of net losses in accumulated other comprehensive income that will be reclassified into earnings during the next twelve months is expected to be approximately $135,000.

NOTE C Investment Securities

The following tables present the amortized cost and estimated fair values of investment securities:

Held to Maturity at June 30, 2011	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
		(in thousands)		
U.S. Government sponsored agency securities	**$ 6,014**	**$ 0**	**$ (7)**	**$ 6,007**
State and municipal securities	**346**	**0**	**0**	**346**
Mortgage-backed securities	**630**	**55**	**0**	**685**
	$ 6,990	**$ 55**	**$ (7)**	**$ 7,038**
Available for Sale at June 30, 2011				
Equity securities	**$ 126,841**	**$ 3,761**	**$ (1,641)**	**$ 128,961**
U.S. Government securities	**1,324**	**0**	**0**	**1,324**
U.S. Government sponsored agency securities	**4,858**	**135**	**(1)**	**4,992**
State and municipal securities	**345,942**	**9,939**	**(255)**	**355,626**
Corporate debt securities	**131,535**	**5,689**	**(8,969)**	**128,255**
Collateralized mortgage obligations	**968,785**	**25,370**	**(173)**	**993,982**
Mortgage-backed securities	**753,353**	**35,163**	**(744)**	**787,772**
Auction rate securities	**267,339**	**708**	**(12,905)**	**255,142**

	$ 2,599,977	**$ 80,765**	**$ (24,688)**	**$ 2,656,054**

Table of Contents

Held to Maturity at December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
U.S. Government sponsored agency securities	$ 6,339	$ 0	$ (1)	$ 6,338
State and municipal securities	346	0	0	346
Mortgage-backed securities	1,066	68	0	1,134
	$ 7,751	$ 68	$ (1)	$ 7,818
Available for Sale at December 31, 2010				
Equity securities	$ 133,570	$ 3,872	$ (974)	$ 136,468
U.S. Government securities	1,649	0	0	1,649
U.S. Government sponsored agency securities	4,888	172	(2)	5,058
State and municipal securities	345,053	6,003	(1,493)	349,563
Corporate debt securities	137,101	3,808	(16,123)	124,786
Collateralized mortgage obligations	1,085,613	23,457	(5,012)	1,104,058
Mortgage-backed securities	843,446	31,080	(3,054)	871,472
Auction rate securities	271,645	892	(11,858)	260,679
	$ 2,822,965	$ 69,284	$ (38,516)	$ 2,853,733

Available for sale equity securities include restricted investment securities issued by the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank totaling $88.6 million and $96.4 million as of June 30, 2011 and December 31, 2010, respectively.

The amortized cost and estimated fair values of debt securities as of June 30, 2011, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held to Maturity		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
		(in thousands)		
Due in one year or less	$ 6,181	$ 6,174	$ 80,963	$ 81,194
Due from one year to five years	179	179	49,609	51,521
Due from five years to ten years	0	0	136,802	143,210
Due after ten years	0	0	483,624	469,414
	6,360	6,353	750,998	745,339
Collateralized mortgage obligations	0	0	968,785	993,982
Mortgage-backed securities	630	685	753,353	787,772
	$ 6,990	$ 7,038	$ 2,473,136	$ 2,527,093

Table of Contents

The following table presents information related to the Corporation s gains and losses on the sales of equity and debt securities, and losses recognized for the other-than-temporary impairment of investments:

	Gross Realized Gains	Gross Realized Losses	Other-than-temporary Impairment Losses	Net Gains (Losses)
	(in thousands)			
Three months ended June 30, 2011:				
Equity securities	**$ 43**	**$ 0**	**$ (34)**	**$ 9**
Debt securities	**16**	**(1)**	**(359)**	**(344)**
Total	**$ 59**	**$ (1)**	**$ (393)**	**$ (335)**
Three months ended June 30, 2010:				
Equity securities	$ 14	$ 0	$ (509)	$ (495)
Debt securities	4,401	(13)	(2,989)	1,399
Total	$ 4,415	$ (13)	$ (3,498)	$ 904
Six months ended June 30, 2011:				
Equity securities	**$ 48**	**$ 0**	**$ (331)**	**$ (283)**
Debt securities	**3,605**	**(19)**	**(1,353)**	**2,233**
Total	**$ 3,653**	**$ (19)**	**$ (1,684)**	**$ 1,950**
Six months ended June 30, 2010:				
Equity securities	$ 850	$ 0	$ (1,333)	$ (483)
Debt securities	6,324	(18)	(7,142)	(836)
Total	$ 7,174	$ (18)	$ (8,475)	$ (1,319)

The other-than-temporary impairment charges for equity securities during the three and six months ended June 30, 2011 and 2010, respectively, were for investments in stocks of financial institutions. Other-than-temporary impairment charges related to financial institution stocks were due to the severity and duration of the declines in fair values of certain bank stock holdings, in conjunction with management s assessment of the near-term prospects of each specific issuer. As of June 30, 2011, after other-than-temporary impairment charges, the financial institutions stock portfolio had a cost basis of $31.2 million and a fair value of $33.3 million.

The credit related other-than-temporary impairment charges for debt securities during the three and six months ended June 30, 2011 and 2010, were for investments in pooled trust preferred securities issued by financial institutions. Other-than-temporary impairment charges related to pooled trust preferred securities were determined based on an expected cash flows model.

Table of Contents

The following table presents a summary of the cumulative credit related other-than-temporary impairment charges, recognized as components of earnings, for pooled trust preferred securities still held by the Corporation:

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
	(in thousands)			
Balance of cumulative credit losses on pooled trust preferred securities, beginning of period	**$ (28,517)**	$ (19,765)	**$ (27,560)**	$ (15,612)
Additions for credit losses recorded which were not previously recognized as components of earnings	**(359)**	(2,989)	**(1,353)**	(7,142)
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	**0**	0	**37**	0
Balance of cumulative credit losses on pooled trust preferred securities, end of period	**$ (28,876)**	$ (22,754)	**$ (28,876)**	$ (22,754)

The following table presents the gross unrealized losses and estimated fair values of investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2011:

	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
			(in thousands)			
U.S. Government sponsored agency securities	$ 5,377	$ (7)	$ 187	$ (1)	$ 5,564	$ (8)
State and municipal securities	31,090	(254)	401	(1)	31,491	(255)
Corporate debt securities	4,900	(105)	46,505	(8,864)	51,405	(8,969)
Collateralized mortgage obligations	102,430	(173)	0	0	102,430	(173)
Mortgage-backed securities	66,829	(744)	0	0	66,829	(744)
Auction rate securities	56,746	(1,550)	175,166	(11,355)	231,912	(12,905)
Total debt securities	267,372	(2,833)	222,259	(20,221)	489,631	(23,054)
Equity securities	11,584	(1,138)	1,690	(503)	13,274	(1,641)
	$ 278,956	$ (3,971)	$ 223,949	$ (20,724)	$ 502,905	$ (24,695)

For its investments in equity securities, most notably its investments in stocks of financial institutions, management evaluates the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on that evaluation and the Corporation s ability and intent to hold those investments for a reasonable period of time sufficient for a recovery of fair value, the Corporation does not consider those investments with unrealized holding losses as of June 30, 2011 to be other-than-temporarily impaired.

The unrealized holding losses on investments in student loan auction rate securities, also known as auction rate certificates (ARCs), are attributable to liquidity issues resulting from the failure of periodic auctions. Fulton Financial Advisors (FFA), the investment management and trust division of the Corporation s Fulton Bank, N.A. subsidiary, held ARCs for some of its customers accounts. FFA had previously sold ARCs to customers as short-term investments with fair values that could be derived based on periodic auctions under normal market conditions. During 2008 and 2009, the Corporation purchased ARCs from customers due to the failure of these periodic auctions, which made these previously short-term investments illiquid.

Table of Contents

As of June 30, 2011, approximately $205 million, or 80%, of the ARCs were rated above investment grade, with approximately $156 million, or 61%, AAA rated. Approximately $50 million, or 20%, of ARCs were rated below investment grade by at least one ratings agency or not rated. Of this amount, approximately $29 million, or 59%, of the student loans underlying the ARCs have principal payments which are guaranteed by the Federal government. In total, approximately $225 million, or 89%, of the student loans underlying the ARCs have principal payments which are guaranteed by the Federal government. As of June 30, 2011, all ARCs were current and making scheduled interest payments. Because the Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, the Corporation does not consider these investments to be other-than-temporarily impaired as of June 30, 2011.

The Corporation s collateralized mortgage obligations and mortgage-backed securities have contractual terms that generally do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the decline in market value of these securities is attributable to changes in interest rates and not credit quality, and because the Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, the Corporation does not consider these investments to be other-than-temporarily impaired as of June 30, 2011.

The following table presents the amortized cost and estimated fair values of corporate debt securities:

	June 30, 2011		December 31, 2010	
	Amortized cost	**Estimated fair value**	Amortized cost	Estimated fair value
		(in thousands)		
Single-issuer trust preferred securities	**$ 87,338**	**$ 82,785**	$ 91,257	$ 81,789
Subordinated debt	**35,051**	**37,527**	34,995	35,915
Pooled trust preferred securities	**6,636**	**5,433**	8,295	4,528
Corporate debt securities issued by financial institutions	**129,025**	**125,745**	134,547	122,232
Other corporate debt securities	**2,510**	**2,510**	2,554	2,554
Available for sale corporate debt securities	**$ 131,535**	**$ 128,255**	$ 137,101	$ 124,786

The Corporation s investments in single-issuer trust preferred securities had an unrealized loss of $4.6 million at June 30, 2011. The Corporation did not record any other-than-temporary impairment charges for single-issuer trust preferred securities during the three or six months ended June 30, 2011 or 2010, respectively. The Corporation held 13 single-issuer trust preferred securities that were rated below investment grade by at least one ratings agency, with an amortized cost of $40.1 million and an estimated fair value of $39.8 million at June 30, 2011. The majority of the single-issuer trust preferred securities rated below investment grade were rated BB or Baa. Single-issuer trust preferred securities with an amortized cost of $11.8 million and an estimated fair value of $10.3 million at June 30, 2011 were not rated by any ratings agency.

The Corporation holds ten pooled trust preferred securities. As of June 30, 2011, nine of these securities, with an amortized cost of $6.0 million and an estimated fair value of $4.9 million, were rated below investment grade by at least one ratings agency, with ratings ranging from C to Ca. For each of the nine pooled trust preferred securities rated below investment grade, the class of securities held by the Corporation is below the most senior tranche, with the Corporation s interests being subordinate to other investors in the pool. The Corporation determines the fair value of pooled trust preferred securities based on quotes provided by third-party brokers.

The amortized cost of pooled trust preferred securities is the purchase price of the securities, net of cumulative credit related other-than-temporary impairment charges, determined using an expected cash flows model. The most significant input to the expected cash flows model was the expected payment deferral rate for each pooled trust preferred security. The Corporation evaluates the financial metrics, such as capital ratios

Table of Contents

and non-performing asset ratios, of the individual financial institution issuers that comprise each pooled trust preferred security to estimate its expected deferral rate. The actual weighted average cumulative defaults and deferrals as a percentage of original collateral were approximately 38% as of June 30, 2011. The discounted cash flow modeling for pooled trust preferred securities held by the Corporation as of June 30, 2011 assumed, on average, an additional 19% expected deferral rate.

Based on management s evaluations, corporate debt securities with a fair value of $128.3 million were not subject to any additional other-than-temporary impairment charges as of June 30, 2011. The Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, which may be maturity.

NOTE D Loans and Allowance for Credit Losses

Loans, Net of Unearned Income

Loans, net of unearned income are summarized as follows:

	June 30, 2011	December 31, 2010
	(in thousands)	
Real-estate commercial mortgage	**$ 4,443,025**	$ 4,375,980
Commercial industrial, financial and agricultural	**3,678,858**	3,704,384
Real-estate home equity	**1,626,545**	1,641,777
Real-estate residential mortgage	**1,023,646**	995,990
Real-estate construction	**681,588**	801,185
Consumer	**330,965**	350,161
Leasing and other	**58,591**	61,017
Overdrafts	**15,657**	10,011
	11,858,875	11,940,505
Unearned income	**(6,384)**	(7,198)
	$ 11,852,491	$ 11,933,307

Allowance for Credit Losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management s estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management s estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheet. The allowance for credit losses is increased by charges to expense, through the provision for credit losses, and decreased by charge-offs, net of recoveries.

The Corporation s established methodology for evaluating the adequacy of the allowance for loan losses considers both components of the allowance: (1) specific allowances allocated to loans evaluated individually for impairment under the Financial Accounting Standards Board s (FASB) Accounting Standards Codification (ASC) Section 310-10-35, and (2) allowances calculated for pools of loans evaluated collectively for impairment under FASB ASC Subtopic 450-20.

Effective April 1, 2011, the Corporation revised and enhanced its allowance for credit loss methodology. The significant revisions to the methodology were as follows:

Change in the identification of loans evaluated individually for impairment. The population of loans evaluated individually for impairment was revised to include only loans on non-accrual status and impaired troubled debt restructurings (Impaired TDRs).

Impaired TDRs represent TDRs that: (1) were modified via a change in the interest rate that, at the time of restructuring, was favorable in comparison to rates offered for loans with similar risk characteristics; or (2) were 90 days or more past due according to their modified terms; or (3) were modified in the current year.

Table of Contents

Under the Corporation s prior methodology, loans evaluated individually for impairment included accruing and non-accrual commercial loans, commercial mortgages and construction loans with risk ratings of substandard or worse and Impaired TDRs.

As of April 1, 2011, the balance of loans evaluated individually for impairment decreased from $525.6 million under the Corporation s prior methodology to $335.6 million under the new methodology. The allowance allocations for loans evaluated individually for impairment decreased from $106.0 million under the Corporation s prior methodology to $88.0 million under the new methodology.

Quarterly evaluations of impaired loans Due to the reduction in loans evaluated individually for impairment noted above, all loans evaluated individually for impairment are now measured for losses on a quarterly basis. Measurement may be more frequent basis if there is a significant change in the amount or timing of an impaired loan s expected future cash flows, if actual cash flows are significantly different from the cash flows previously projected, or if the fair value of an impaired loan s collateral significantly changes. In addition, the Corporation implemented a new appraisal policy which requires that impaired loans secured predominately by real estate have updated certified third-party appraisals, generally every 12 months.

Under the Corporation s prior methodology, impaired loans were individually evaluated for impairment every 12 months or, if necessary, on a more frequent basis based on significant changes in expected future cash flows or significant changes collateral values. For impaired loans secured predominately by real estate, decisions regarding whether an updated certified appraisal was necessary were made on a loan-by-loan basis.

As of June 30, 2011, approximately 85% of impaired loans with principal balances greater than $1.0 million, whose primary collateral is real estate, were measured at estimated fair value using certified third-party appraisals that had been updated within the preceding 12 months. In comparison, as of March 31, 2011 and December 31, 2010, approximately 57% and 52%, respectively, of impaired loans with principal balances greater than $1 million, whose primary collateral is real estate, were measured at estimated fair value using certified third-party appraisals that had been updated within the preceding 12 months.

Change in the determination of allocation needs on loans evaluated collectively for impairment. Under its new methodology, the Corporation revised and further disaggregated its pools of loans evaluated collectively for impairment. Similar to the prior methodology, pools are segmented by general loan types, and further segmented by collateral types, where appropriate. However, under the new methodology, pools are further disaggregated by internal credit risk ratings for commercial loans, commercial mortgages and construction loans and by delinquency status for residential mortgages, consumer loans and all other loan types.

Allowance allocations for each pool are determined through a regression analysis based on historical losses for the most recent four years. The analysis computes loss rates based on a probability of default (PD) and loss given default (LGD). While the previous methodology utilized the same historical loss period, allowance allocations were computed based on weighted average charge-off rates as opposed to the use of a regression analysis, which computes PDs and LGDs based on historical losses as loans migrate through the various risk rating or delinquency categories.

Under both the current and previous methodologies, loss rates are adjusted to consider qualitative factors such as economic conditions and trends, among others. However, under its new methodology, the Corporation applies a more detailed analysis of qualitative factors that are formally assessed on a quarterly basis by a committee comprised of lending and credit administration personnel.

Table of Contents

As of April 1, 2011, total allocations on $11.5 billion of loans evaluated collectively for impairment under the new methodology were $182.2 million. In comparison, under the Corporation s previous methodology, total allocations on $11.3 billion of loans evaluated collectively for impairment were $164.2 million.

The Corporation s conclusion as of March 31, 2011 that its total allowance for credit losses of $271.2 million was sufficient to cover losses inherent in the loan portfolio did not change as a result of its new allowance for credit loss methodology. As noted above, the change in methodology expanded the number of loans evaluated collectively for impairment and reduced the number of loans evaluated individually for impairment. In addition, the change in methodology resulted in shifts in allocations by loan type, as detailed within the tabular information below.

Effective December 31, 2010, the Corporation adopted the provisions of the Financial Accounting Standards FASB ASC Update 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASC Update 2010-20), for period end disclosures related to the credit quality of loans. In 2011, the Corporation adopted certain additional disclosure requirements of ASC Update 2010-20 related to credit quality activity during a reporting period, or for the three and six months ended June 30, 2011.

The development of the Corporation s allowance for loan losses is based first on a segmentation of its loan portfolio by general loan type, or portfolio segments, as presented in the table under the heading, Loans, Net of Unearned Income, above. Certain portfolio segments are further disaggregated and evaluated collectively for impairment based on class segments, which are largely based on the type of collateral underlying each loan. For commercial loans, class segments include loans secured by collateral and unsecured loans. Construction loan class segments include loans secured by commercial real estate and loans secured by residential real estate. Consumer loan class segments are based on collateral types and include direct consumer installment loans and indirect automobile loans.

The following table presents the components of the allowance for credit losses:

	June 30, 2011	December 31, 2010
	(in thousands)	
Allowance for loan losses	**$ 266,683**	$ 274,271
Reserve for unfunded lending commitments	**1,950**	1,227
Allowance for credit losses	**$ 268,633**	$ 275,498

The following table presents the activity in the allowance for credit losses for the three and six months ended June 30:

	Three months ended June 30,		**Six months ended June 30,**	
	2011	2010	**2011**	2010
		(in thousands)		
Balance at beginning of period	**$ 271,156**	$ 269,254	**$ 275,498**	$ 257,553
Loans charged off	**(40,675)**	(31,532)	**(86,204)**	(61,524)
Recoveries of loans previously charged off	**2,152**	2,655	**5,339**	4,348
Net loans charged off	**(38,523)**	(28,877)	**(80,865)**	(57,176)
Provision for credit losses	**36,000**	40,000	**74,000**	80,000
Balance at end of period	**$ 268,633**	$ 280,377	**$ 268,633**	$ 280,377

Table of Contents

The following tables present the activity in the allowance for loan losses by portfolio segment for the three and six months ended June 30, 2011:

	Real Estate - Commercial Mortgage	Commercial - Industrial, Financial and Agricultural	Real Estate - Home Equity	Real Estate - Residential Mortgage	Real Estate - Construction	Consumer	Leasing and other and Overdrafts	Unallocated	Total
					(in thousands)				
Three months ended June 30, 2011									
Balance at April 1, 2011	**$ 48,558**	**$ 100,180**	**$ 5,656**	**$ 19,575**	**$ 55,491**	**$ 4,736**	**$ 2,576**	**$ 33,500**	**$ 270,272**
Loans charged off	**(7,074)**	**(15,406)**	**(1,650)**	**(7,707)**	**(7,468)**	**(681)**	**(689)**	**0**	**(40,675)**
Recoveries of loans previously charged off	**191**	**1,003**	**2**	**190**	**79**	**433**	**254**	**0**	**2,152**
Net loans charged off									