

FULTON FINANCIAL CORP

Form 10-Q/A

November 19, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20459  
FORM 10-Q/A**

(Mark One)

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

**For the quarterly period ended September 30, 2008, 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  
incorporation or organization)

(I.R.S. Employer  
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 ☒ 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. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐  
(Do not check if a 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 ☒

**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 174,981,000 shares outstanding as of October 31, 2008.

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**EXPLANATORY NOTE**

This Amended Quarterly Report on Form 10-Q/A is being filed for the purpose of correcting clerical errors on Exhibit 32.1 and Exhibit 32.2. In all other material respects this Amended Quarterly Report on Form 10-Q/A is unchanged from the Quarterly Report on Form 10-Q filed by Fulton Financial Corporation on November 10, 2008.

**FULTON FINANCIAL CORPORATION**  
**FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2008**  
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**Table of Contents****Item 1. Financial Statements****FULTON FINANCIAL CORPORATION  
CONSOLIDATED BALANCE SHEETS****(in thousands, except per-share data)**

	<b>September 30 2008 (unaudited)</b>	<b>December 31 2007</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 315,841	\$ 381,283
Interest-bearing deposits with other banks	11,819	11,330
Federal funds sold	38,370	9,823
Loans held for sale	71,090	103,984
Investment securities:		
Held to maturity (estimated fair value of \$9,926 in 2008 and \$10,399 in 2007)	9,823	10,285
Available for sale	2,796,712	3,143,267
Loans, net of unearned income	11,823,529	11,204,424
Less: Allowance for loan losses	(136,988)	(107,547)
<i>Net Loans</i>	<b>11,686,541</b>	<b>11,096,877</b>
Premises and equipment	199,464	193,296
Accrued interest receivable	62,018	73,435
Goodwill	624,410	624,072
Intangible assets	25,225	30,836
Other assets	294,832	244,610
<i>Total Assets</i>	<b>\$ 16,136,145</b>	<b>\$ 15,923,098</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 1,690,499	\$ 1,722,211
Interest-bearing	8,226,056	8,383,234
<i>Total Deposits</i>	<b>9,916,555</b>	<b>10,105,445</b>
Short-term borrowings:		
Federal funds purchased	1,326,873	1,057,335
Other short-term borrowings	1,263,093	1,326,609
<i>Total Short-Term Borrowings</i>	<b>2,589,966</b>	<b>2,383,944</b>

Accrued interest payable	<b>47,950</b>	69,238
Other liabilities	<b>157,875</b>	147,418
Federal Home Loan Bank advances and long-term debt	<b>1,819,889</b>	1,642,133
<i>Total Liabilities</i>	<b>14,532,235</b>	14,348,178

**SHAREHOLDERS' EQUITY**

Common stock, \$2.50 par value, 600 million shares authorized, 192.3 million shares issued in 2008 and 191.8 million shares issued in 2007	<b>480,810</b>	479,559
Additional paid-in capital	<b>1,253,851</b>	1,254,369
Retained earnings	<b>159,320</b>	141,993
Accumulated other comprehensive loss	<b>(21,262)</b>	(21,773)
Treasury stock, 17.6 million shares in 2008 and 18.3 million shares in 2007, at cost	<b>(268,809)</b>	(279,228)
<i>Total Shareholders' Equity</i>	<b>1,603,910</b>	1,574,920

<i>Total Liabilities and Shareholders' Equity</i>	<b>\$ 16,136,145</b>	\$ 15,923,098
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*See Notes to Consolidated Financial Statements*

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**FULTON FINANCIAL CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**  
**(in thousands, except per-share data)**

	<b>Three Months Ended September 30</b>		<b>Nine Months Ended September 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>INTEREST INCOME</b>				
Loans, including fees	<b>\$ 180,170</b>	\$ 204,580	<b>\$ 550,477</b>	\$ 598,130
Investment securities:				
Taxable	<b>26,025</b>	24,583	<b>84,114</b>	71,201
Tax-exempt	<b>4,513</b>	4,388	<b>13,540</b>	13,069
Dividends	<b>1,421</b>	2,063	<b>5,103</b>	5,998
Loans held for sale	<b>1,539</b>	2,694	<b>4,727</b>	9,771
Other interest income	<b>141</b>	432	<b>460</b>	1,339
<i>Total Interest Income</i>	<b>213,809</b>	238,740	<b>658,421</b>	699,508
<b>INTEREST EXPENSE</b>				
Deposits	<b>47,192</b>	76,403	<b>161,807</b>	221,410
Short-term borrowings	<b>12,877</b>	17,786	<b>44,093</b>	51,734
Long-term debt	<b>19,722</b>	22,141	<b>60,714</b>	61,271
<i>Total Interest Expense</i>	<b>79,791</b>	116,330	<b>266,614</b>	334,415
<i>Net Interest Income</i>	<b>134,018</b>	122,410	<b>391,807</b>	365,093
Provision for loan losses	<b>26,700</b>	4,606	<b>54,626</b>	8,263
<i>Net Interest Income After Provision for Loan Losses</i>	<b>107,318</b>	117,804	<b>337,181</b>	356,830
<b>OTHER INCOME</b>				
Service charges on deposit accounts	<b>16,177</b>	11,293	<b>45,463</b>	33,145
Other service charges and fees	<b>9,598</b>	8,530	<b>27,320</b>	23,746
Investment management and trust services	<b>8,045</b>	9,291	<b>25,193</b>	29,374
Gains on sales of mortgage loans	<b>2,266</b>	2,532	<b>7,247</b>	12,113
Gain on sale of credit card portfolio			<b>13,910</b>	
Investment securities (losses) gains	<b>(9,501)</b>	(134)	<b>(29,902)</b>	2,277
Other	<b>4,030</b>	5,231	<b>11,214</b>	12,158
<i>Total Other Income</i>	<b>30,615</b>	36,743	<b>100,445</b>	112,813
<b>OTHER EXPENSES</b>				
Salaries and employee benefits	<b>55,310</b>	52,505	<b>164,786</b>	164,353
Net occupancy expense	<b>10,237</b>	9,813	<b>30,999</b>	29,963
Operating risk loss	<b>3,480</b>	16,345	<b>19,108</b>	26,462



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Data processing	<b>3,242</b>	3,131	<b>9,604</b>	9,550
Advertising	<b>3,097</b>	2,470	<b>9,521</b>	7,869
Equipment expense	<b>3,061</b>	3,438	<b>9,907</b>	10,589
Intangible amortization	<b>1,730</b>	1,995	<b>5,386</b>	6,176
Other	<b>18,998</b>	18,299	<b>56,240</b>	52,046

<i>Total Other Expenses</i>	<b>99,155</b>	107,996	<b>305,551</b>	307,008
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<i>Income Before Income Taxes</i>	<b>38,778</b>	46,551	<b>132,075</b>	162,635
Income taxes	<b>9,702</b>	12,985	<b>35,825</b>	48,096

<i>Net Income</i>	<b>\$ 29,076</b>	\$ 33,566	<b>\$ 96,250</b>	\$ 114,539
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**PER-SHARE DATA:**

Net income (basic)	<b>\$ 0.17</b>	\$ 0.19	<b>\$ 0.55</b>	\$ 0.66
Net income (diluted)	<b>0.17</b>	0.19	<b>0.55</b>	0.66
Cash dividends	<b>0.150</b>	0.150	<b>0.450</b>	0.448

*See Notes to Consolidated Financial Statements*

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**FULTON FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME**  
**(UNAUDITED)**  
**NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007**  
**(in thousands)**

	<b>Number of Shares Outstanding</b>	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income (Loss)</b>	<b>Treasury Stock</b>	<b>Total</b>
Balance at December 31, 2007	<b>173,503</b>	<b>\$ 479,559</b>	<b>\$ 1,254,369</b>	<b>\$ 141,993</b>	<b>\$ (21,773)</b>	<b>\$ (279,228)</b>	<b>\$ 1,574,920</b>
Comprehensive income:							
Net income				<b>96,250</b>			<b>96,250</b>
Other comprehensive income					<b>511</b>		<b>511</b>
<i>Total comprehensive income</i>							<b>96,761</b>
Stock issued, including related tax benefits	<b>1,184</b>	<b>1,251</b>	<b>(2,189)</b>			<b>10,419</b>	<b>9,481</b>
Stock-based compensation awards			<b>1,671</b>				<b>1,671</b>
Impact of pension plan measurement date change (net of \$23,000 tax effect)				<b>43</b>			<b>43</b>
Cumulative effect of EITF 06-4 adoption				<b>(677)</b>			<b>(677)</b>
Cash dividends \$0.450 per share				<b>(78,289)</b>			<b>(78,289)</b>
Balance at September 30, 2008	<b>174,687</b>	<b>\$ 480,810</b>	<b>\$ 1,253,851</b>	<b>\$ 159,320</b>	<b>\$ (21,262)</b>	<b>\$ (268,809)</b>	<b>\$ 1,603,910</b>
Balance at December 31, 2006	<b>173,648</b>	<b>\$ 476,987</b>	<b>\$ 1,246,823</b>	<b>\$ 92,592</b>	<b>\$ (39,091)</b>	<b>\$ (261,001)</b>	<b>\$ 1,516,310</b>

Comprehensive income:								
Net income				114,539				114,539
Other comprehensive income					10,046			10,046
<i>Total comprehensive income</i>								124,585
Stock issued, including related tax benefits	920	2,298	4,383					6,681
Stock-based compensation awards			2,069					2,069
Cumulative effect of FIN 48 adoption				220				220
Acquisition of treasury stock	(1,174)					(18,227)		(18,227)
Cash dividends \$0.448 per share				(77,518)				(77,518)
Balance at September 30, 2007	173,394	\$ 479,285	\$ 1,253,275	\$ 129,833	\$ (29,045)	\$ (279,228)		\$ 1,554,120

*See Notes to Consolidated Financial Statements*

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**FULTON FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**  
**(in thousands)**

	<b>Nine Months Ended September 30</b>	
	<b>2008</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 96,250	\$ 114,539
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	54,626	8,263
Depreciation and amortization of premises and equipment	14,776	14,801
Net amortization of investment security premiums	372	1,726
Gain on sale of credit card portfolio	(13,910)	
Investment securities losses (gains)	29,902	(2,277)
Net decrease in loans held for sale	17,396	92,314
Amortization of intangible assets	5,386	6,176
Stock-based compensation expense	1,671	2,069
Excess tax benefits from stock-based compensation expense	(20)	(111)
Decrease (increase) in accrued interest receivable	11,417	(2,102)
(Increase) decrease in other assets	(12,274)	8,940
(Decrease) increase in accrued interest payable	(21,288)	9,373
Decrease in other liabilities	(17,279)	(10,858)
Total adjustments	70,775	128,314
<i>Net cash provided by operating activities</i>	<b>167,025</b>	<b>242,853</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of securities available for sale	662,993	314,979
Proceeds from maturities of securities held to maturity	5,273	2,774
Proceeds from maturities of securities available for sale	546,407	366,308
Proceeds from sale of credit card portfolio	100,516	
Purchase of securities held to maturity	(4,813)	(1,986)
Purchase of securities available for sale	(903,817)	(739,377)
(Increase) decrease in short-term investments	(29,036)	8,515
Net increase in loans	(715,219)	(589,419)
Net purchases of premises and equipment	(20,944)	(13,492)
<i>Net cash used in investing activities</i>	<b>(358,640)</b>	<b>(651,698)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net decrease in demand and savings deposits	(21,071)	(171,584)
Net (decrease) increase in time deposits	(167,819)	230,301
Additions to long-term debt	344,690	723,633
Repayments of long-term debt	(166,934)	(394,801)

Increase in short-term borrowings	<b>206,022</b>	92,243
Dividends paid	<b>(78,196)</b>	(77,113)
Net proceeds from issuance of stock	<b>9,461</b>	6,570
Excess tax benefits from stock-based compensation expense	<b>20</b>	111
Acquisition of treasury stock		(18,227)
<i>Net cash provided by financing activities</i>	<b>126,173</b>	391,133
 <b>Net Decrease in Cash and Due From Banks</b>	 <b>(65,442)</b>	 (17,712)
<b>Cash and Due From Banks at Beginning of Year</b>	<b>381,283</b>	355,018
 <b>Cash and Due From Banks at End of Year</b>	 <b>\$ 315,841</b>	 \$ 337,306
 <b>Supplemental Disclosures of Cash Flow Information</b>		
Cash paid during the period for:		
Interest	<b>\$ 287,902</b>	\$ 325,042
Income taxes	<b>67,264</b>	52,355
<i>See Notes to Consolidated Financial Statements</i>		

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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 nine-month periods ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

**NOTE B Net Income Per Share and Comprehensive Income**

The Corporation's basic net income per share is calculated as net income divided by the weighted average number of shares outstanding. For diluted net income per share, net income is divided by the weighted average number of 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 solely of outstanding stock options and restricted stock.

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30</b>		<b>September 30</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
		(in thousands)		
Weighted average shares outstanding (basic)	<b>174,463</b>	173,304	<b>174,017</b>	173,254
Impact of common stock equivalents	<b>449</b>	1,066	<b>534</b>	1,239
Weighted average shares outstanding (diluted)	<b>174,912</b>	174,370	<b>174,551</b>	174,493
Stock options excluded from the earnings per share computation as their effect would have been anti-dilutive	<b>5,560</b>	4,429	<b>5,261</b>	3,988

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The following table presents the components of other comprehensive income (loss):

	<b>Nine months ended September 30</b>	
	<b>2008</b>	<b>2007</b>
	(in thousands)	
Unrealized (loss) gain on securities (net of \$11.9 million and \$1.3 million tax effect in 2008 and 2007, respectively)	<b>\$ (22,118)</b>	<b>\$ 2,416</b>
Unrealized gain (loss) on derivative financial instruments (net of \$55,000 and \$29,000 tax effect in 2008 and 2007, respectively)	<b>102</b>	<b>(53)</b>
Reclassification adjustment for securities losses (gains) included in net income (net of \$12.1 million tax benefit in 2008 and \$797,000 tax expense in 2007)	<b>22,527</b>	<b>(1,480)</b>
Defined benefit pension plan curtailment (net of \$4.9 million tax effect in 2007)		<b>9,122</b>
Amortization of unrecognized pension and postretirement costs (net of \$22,000 tax effect in 2007)		<b>41</b>
Other comprehensive income	<b>\$ 511</b>	<b>\$ 10,046</b>

**NOTE C INVESTMENT SECURITIES**

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

	Amortized Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses	Estimated Fair Value
<b>Held to Maturity at September 30, 2008</b>				
U.S. Government sponsored agency securities	\$ 6,720	\$ 22	\$	\$ 6,742
State and municipal securities	912	4		916
Corporate debt securities	25			25
Mortgage-backed securities	2,166	77		2,243
	\$ 9,823	\$ 103	\$	\$ 9,926

**Available for Sale at September 30, 2008**

Equity securities	<b>\$ 171,944</b>	<b>\$ 4,842</b>	<b>\$ (5,737)</b>	<b>\$ 171,049</b>
U.S. Government securities	<b>14,585</b>	<b>59</b>		<b>14,644</b>
U.S. Government sponsored agency securities	<b>76,952</b>	<b>1,632</b>	<b>(10)</b>	<b>78,574</b>
State and municipal securities	<b>519,718</b>	<b>1,681</b>	<b>(9,520)</b>	<b>511,879</b>
Corporate debt securities	<b>173,057</b>	<b>681</b>	<b>(41,855)</b>	<b>131,883</b>
Collateralized mortgage obligations	<b>521,489</b>	<b>15,358</b>	<b>(107)</b>	<b>536,740</b>
Mortgage-backed securities	<b>1,191,267</b>	<b>10,755</b>	<b>(3,160)</b>	<b>1,198,862</b>
Auction rate securities (1)	<b>157,011</b>		<b>(3,930)</b>	<b>153,081</b>
	<b>\$ 2,826,023</b>	<b>\$ 35,008</b>	<b>\$ (64,319)</b>	<b>\$ 2,796,712</b>

- (1) See Note I,  
Commitments  
and  
Contingencies  
for additional  
details related to  
auction rate  
securities.



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	Amortized Cost	Gross Unrealized Gains (in thousands)	Gross Unrealized Losses	Estimated Fair Value
Held to Maturity at December 31, 2007				
U.S. Government sponsored agency securities	\$ 6,478	\$ 33	\$	\$ 6,511
State and municipal securities	1,120	7		1,127
Corporate debt securities	25			25
Mortgage-backed securities	2,662	74		2,736
	\$ 10,285	\$ 114	\$	\$ 10,399

## Available for Sale at December 31, 2007

Equity securities	\$ 215,177	\$ 282	\$ (23,734)	\$ 191,725
U.S. Government securities	14,489	47		14,536
U.S. Government sponsored agency securities	200,899	1,658	(34)	202,523
State and municipal securities	520,670	2,488	(1,620)	521,538
Corporate debt securities	172,907	1,259	(8,184)	165,982
Collateralized mortgage obligations	588,848	6,604	(677)	594,775
Mortgage-backed securities	1,460,219	6,167	(14,198)	1,452,188
	\$ 3,173,209	\$ 18,505	\$ (48,447)	\$ 3,143,267

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 September 30, 2008:

	Less Than 12 months		12 Months or Longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value (in thousands)	Unrealized Losses	Estimated Fair Value	Unrealized Losses
U.S. Government sponsored agency securities	\$ 1,344	\$ (1)	\$ 528	\$ (9)	\$ 1,872	\$ (10)
State and municipal securities	198,135	(9,497)	3,587	(23)	201,722	(9,520)
Corporate debt securities	87,817	(29,246)	28,596	(12,609)	116,413	(41,855)
Collateralized mortgage obligations	24,099	(107)	10		24,109	(107)
Mortgage-backed securities	324,071	(2,000)	99,041	(1,160)	423,112	(3,160)
Auction rate securities (1)	152,986	(3,930)			152,986	(3,930)
Total debt securities	788,452	(44,781)	131,762	(13,801)	920,214	(58,582)

Equity securities	23,690	(4,674)	4,010	(1,063)	27,700	(5,737)
	\$ 812,142	\$ (49,455)	\$ 135,772	\$ (14,864)	\$ 947,914	\$ (64,319)

(1) See Note I,  
Commitments  
and  
Contingencies  
for additional  
details related to  
auction rate  
securities.

As of September 30, 2008, the unrealized losses on the Corporation's investments in corporate debt securities were caused by decreases in the estimated fair values of investments in single-issuer and pooled trust preferred securities and subordinated debt issued by financial institutions. The unrealized losses on mortgage-backed securities and collateralized mortgage obligations were the result of increases in U.S. Treasury yields at terms that were consistent with the terms of the investments held by the Corporation. The unrealized losses on equity securities in the above table were due to decreases in the values of stocks of financial institutions.

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The Corporation evaluates whether unrealized losses on investment securities indicate other-than-temporary impairment. Based upon this evaluation, losses of \$10.7 million and \$39.3 million were recognized during the three and nine months ended September 30, 2008, respectively, for the other-than-temporary impairment of investment securities.

The following table presents other-than-temporary impairment charges, included within Investment securities (losses) gains on the consolidated statements of income, by investment security type:

	<b>September 30, 2008</b>	
	<b>Three months ended</b>	<b>Nine months ended</b>
	(in thousands)	
Financial institution stocks	\$ 2,021	\$ 30,250
Government sponsored agency stock	356	356
Mutual funds	460	820
 Total Equity securities charges	 2,837	 31,426
 Bank-issued subordinated debt	 4,855	 4,855
Pooled trust preferred security	2,990	2,990
 Total Debt securities charges	 7,845	 7,845
 Total other-than-temporary impairment charges	 \$ 10,682	 \$ 39,271

During the three and nine months ended September 30, 2007, the Corporation recognized losses of \$117,000 for the other-than-temporary impairment of financial institutions stocks. There were no other-than-temporary impairment charges recorded for debt securities during the three and nine months ended September 30, 2007.

Beginning in 2007 and continuing through the third quarter of 2008, the values of financial institution stocks, including those held by the Corporation, declined significantly. The other-than-temporary impairment charges of \$2.0 million and \$30.3 million for the three and nine months ended September 30, 2008 were due to the increasing severity and duration of the decline in fair values of the stocks written down. These factors, in conjunction with management's evaluation of the near-term prospects of each specific issuer, resulted in the charges recognized during the current year. As of September 30, 2008, after other-than-temporary impairment charges, the financial institution stock portfolio had a cost basis of \$55.2 million and a fair value of \$54.3 million.

In addition to financial institution stocks, the Corporation recorded other-than-temporary impairment charges on other equity securities of \$816,000 and \$1.2 million for the three and nine months ended September 30, 2008. The charges included a write-down for the Corporation's entire investment in the stock of government sponsored agencies.

As noted above, the unrealized losses on the Corporation's investments in debt securities were caused by decreases in the estimated fair values of investments in single-issuer and pooled trust preferred securities and subordinated debt securities issued by financial institutions. As with equity securities issued by financial institutions, the estimated fair value of debt securities issued by financial institutions has also declined significantly during 2008. The \$4.9 million other-than-temporary impairment charge for bank-issued subordinated debt was related to an investment in a financial institution which failed during the third quarter of 2008. The \$3.0 million other-than-temporary impairment charge for a pooled trust preferred security was due to management's assessment that the expected cash flows from this investment would not exceed its amortized cost.

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

	<b>September 30, 2008</b>		<b>December 31, 2007</b>	
	<b>Amortized cost</b>	<b>Estimated fair value</b>	<b>Amortized cost</b>	<b>Estimated fair value</b>
	(in thousands)			
Single-issuer trust preferred securities (1)	<b>\$ 97,870</b>	<b>\$ 74,512</b>	\$ 96,781	\$ 92,515
Subordinated debt	<b>40,009</b>	<b>31,666</b>	37,886	36,760
Pooled trust preferred securities	<b>32,220</b>	<b>22,749</b>	35,271	33,743
 Total corporate debt securities issued by financial institutions	 <b>\$ 170,099</b>	 <b>\$ 128,927</b>	 \$ 169,938	 \$ 163,018

(1) Single-issuer trust preferred securities with estimated fair values totaling \$8.9 million as of September 30, 2008 are classified as Level 3 assets. See Note J, Fair Value Measurements for additional details.

Based on management's other-than-temporary impairment evaluations and the Corporation's ability and intent to hold these investments for a reasonable period of time sufficient for a recovery of fair value, the Corporation does not consider these investments to be other-than-temporarily impaired as of September 30, 2008.

In relation to the Corporation's investments in mortgage-backed securities and collateralized mortgage obligations, the contractual terms of those investments 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 for mortgage-backed securities and collateralized mortgage obligations held by the Corporation are attributable to changes in interest rates and not credit quality, and because the Corporation has the ability and intent to hold those investments until a recovery of fair value, which may be maturity, the Corporation does not consider those investments to be other-than-temporarily impaired at September 30, 2008.

**NOTE D Sale of Credit Card Portfolio**

In April 2008, the Corporation sold its approximately \$87.0 million credit card portfolio to U.S. Bank National Association ND, d/b/a Elan Financial Services (Elan). As a result of this sale, the Corporation recorded a \$13.9 million gain.

Under a separate agreement with Elan, the Corporation provides ongoing marketing services on behalf of Elan and receives fee income for each new account originated and a percentage of the revenue earned on both new accounts and accounts sold. During the three and nine months ended September 30, 2008, the Corporation recorded \$1.3 million and \$2.4 million, respectively, of credit card fee income, included within other income on the consolidated statements

of income, in connection with this agreement.

**NOTE E Income Taxes**

In accordance with Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), the Corporation maintains a reserve for unrecognized income tax positions as a component of other liabilities. Upon adoption of FIN 48 on January 1, 2007, the Corporation recorded a \$220,000 decrease in existing reserves for unrecognized income tax positions, with a cumulative effect adjustment for the same amount recorded to retained earnings.

As of September 30, 2008 and 2007, the Corporation had total reserves for unrecognized income tax positions of \$2.8 million and \$4.1 million, respectively, all of which, if recognized, would impact the effective tax rate. Also as of September 30, 2008 and 2007, the Corporation had \$807,000 and \$1.4 million,

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respectively, in accrued interest payable related to such unrecognized positions. The Corporation recognizes interest accrued related to unrecognized income tax positions as a component of income tax expense. Penalties, if incurred, would also be recognized in income tax expense.

In March 2008, the Corporation reversed \$2.0 million of its reserves for unrecognized income tax positions, resulting in a reduction of income tax expense. The Corporation had not fully recognized in the consolidated financial statements the positions it had taken on its tax returns for disallowed interest expense on certain tax-exempt municipal securities. In the fourth quarter of 2007, a court ruled in favor of a taxpayer who had taken a similar position on its tax returns. In March 2008, the Internal Revenue Service indicated that it would not pursue an appeal of this ruling. As a result, the criteria for remeasurement of this tax position were reached.

The Corporation, or one of its subsidiaries, files income tax returns in the U.S. Federal jurisdiction, and various states. In many cases, unrecognized income tax positions are related to tax years that remain subject to examination by the relevant taxing authorities. With few exceptions, the Corporation is no longer subject to U.S. Federal, state and local examinations by tax authorities for years before 2005.

**NOTE F Stock-Based Compensation**

As required by Statement of Financial Accounting Standards No. 123R, *Share-Based Payment*, the fair value of equity awards to employees is recognized as compensation expense over the period during which employees are required to provide service in exchange for such awards. The Corporation's equity awards consist of stock options and restricted stock granted under its Stock Option and Compensation Plans (Option Plans) and shares purchased by employees under its Employee Stock Purchase Plan.

The following table presents compensation expense and the related tax benefits for equity awards recognized in the consolidated statements of income:

	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	(in thousands)			
Stock-based compensation expense	<b>\$ 606</b>	\$ 811	<b>\$ 1,671</b>	\$ 2,069
Tax benefit	<b>(108)</b>	(130)	<b>(234)</b>	(310)
Stock-based compensation expense, net of tax	<b>\$ 498</b>	\$ 681	<b>\$ 1,437</b>	\$ 1,759

Under the Option Plans, stock options and restricted stock are granted to key employees at option prices equal to the fair market value of the Corporation's stock on the date of grant, with stock options having terms of up to ten years. Stock options and restricted stock are typically granted annually on July 1st and become fully vested after a three-year vesting period. Certain events, as specified in the Option Plans and agreements, would result in the acceleration of the vesting period. As of September 30, 2008, there were 13.6 million shares reserved for future grants through 2013. On July 1, 2008, the Corporation granted approximately 358,000 stock options and 45,000 shares of restricted stock under its Option Plans.

**NOTE G Employee Benefit Plans**

The Corporation maintains a defined benefit pension plan (Pension Plan) for certain employees. Contributions to the Pension Plan are actuarially determined and funded annually. Pension Plan assets are invested in: money markets; fixed income securities, including corporate bonds, U.S. Treasury securities and common trust funds; and equity securities, including common stocks and common stock mutual funds.

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On April 30, 2007, the Corporation amended the Pension Plan to discontinue the accrual of benefits for all existing participants, effective January 1, 2008. As a result of this amendment, the Corporation recorded a \$58,000 curtailment loss, as determined by consulting actuaries, during the second quarter of 2007. The curtailment loss resulted from a \$13.8 million gain from adjusting the funded status of the Pension Plan and an offsetting \$13.9 million write-off of unamortized pension costs and related deferred tax assets.

The Corporation currently provides medical and life insurance benefits under a postretirement benefits plan (Postretirement Plan) to certain retired full-time employees who were employees of the Corporation prior to January 1, 1998. Certain full-time employees may become eligible for these discretionary benefits if they reach retirement age while working for the Corporation. Benefits are based on a graduated scale for years of service after attaining the age of 40.

As required by Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Postretirement Plans (Statement 158), the Corporation recognizes the funded status of its Pension Plan and Postretirement Plan on the consolidated balance sheets and recognizes the changes in that funded status through other comprehensive income.

Effective January 1, 2008, as required by Statement 158, the Corporation changed the actuarial measurement date for its Pension Plan from a fiscal year-end of September 30th to December 31st. The impact of this change in the actuarial measurement date resulted in a \$66,000 increase to the Corporation's prepaid pension asset and a cumulative effect adjustment, net of tax, of \$43,000 recorded as an increase to retained earnings.

The net periodic benefit cost for the Corporation's Pension Plan and Postretirement Plan, as determined by consulting actuaries, consisted of the following components for the three and nine-month periods ended September 30:

	<b>Pension Plan</b>			
	<b>Three months</b>		<b>Nine months ended</b>	
	<b>ended</b>		<b>September 30</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	(in thousands)			
Service cost (1)	\$ 36	\$ 394	\$ 110	\$ 1,508
Interest cost	816	769	2,448	2,515
Expected return on plan assets	(918)	(901)	(2,754)	(3,018)
Net amortization and deferral				233
Curtailment loss				58
Net periodic benefit (income) cost	\$ (66)	\$ 262	\$ (196)	\$ 1,296

(1) The Pension Plan service cost recorded for the three and nine months ended September 30, 2008 was related to administrative costs associated with the plan and not due to

the accrual of  
additional  
participant  
benefits.

	Postretirement Plan			
	Three months ended		Nine months ended	
	September 30		September 30	
	2008	2007	2008	2007
		(in thousands)		
Service cost	\$ 132	\$ 138	\$ 390	\$ 367
Interest cost	184	182	538	483
Expected return on plan assets	(1)	(2)	(4)	(4)
Net amortization and deferral		(57)		(170)
Net periodic benefit cost	\$ 315	\$ 261	\$ 924	\$ 676



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In September 2006, the FASB ratified Emerging Issues Task Force (EITF) Issue 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* (EITF 06-4). EITF 06-4 addresses accounting for endorsement split-dollar life insurance arrangements that provide a benefit to an employee that extends to postretirement periods. EITF 06-4 requires that the postretirement benefit aspects of an endorsement-type split-dollar life insurance arrangement be recognized as a liability by the employer if that obligation has not been settled through the related insurance arrangement.

The Corporation adopted the provisions of EITF 06-4 on January 1, 2008 and recorded a \$677,000 liability, with a cumulative effect adjustment for the same amount recorded as a reduction to retained earnings. The amount represents the actuarial cost of maintaining endorsement split-dollar life insurance policies for certain employees which have not been effectively settled through their related insurance arrangements.

**NOTE H Derivative Financial Instruments**

**Interest Rate Swaps**

As of September 30, 2008, interest rate swaps with a notional amount of \$18.0 million were used to hedge certain long-term fixed rate certificates of deposit. The terms of the certificates of deposit and the interest rate swaps are similar and were committed to simultaneously. Under the terms of the swap agreements, the Corporation is the fixed rate receiver and the floating rate payer (generally tied to the three-month London Interbank Offering Rate, or LIBOR, a common index used for setting rates between financial institutions). The interest rate swaps and the certificates of deposit are recorded at fair value, with changes in the fair values during the period recorded to other expense. For the three and nine months ended September 30, 2008, the net impact of the change in fair values of the interest rate swaps and the certificates of deposit was insignificant. For the three and nine months ended September 30, 2007, the net impact of the change in fair values of the interest rate swaps and certificates of deposit, recorded in other expenses, were \$10,000 and \$251,000, respectively.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115* (Statement 159). Statement 159 permits entities to choose to measure many financial instruments and certain other items at fair value and amends Statement 115 to, among other things, require certain disclosures for amounts for which the fair value option is applied. Statement 159 became effective on January 1, 2008 and the Corporation adopted the provisions of Statement 159 for the interest rate swaps and the related certificates of deposit.

Prior to the adoption of Statement 159, the Corporation accounted for these interest rate swaps and the related certificates of deposit under Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (Statement 133). Under Statement 133, the Corporation performed tests for each swap to prove they were highly effective. The adoption of Statement 159 for these instruments did not result in a change in the reported values of the interest rate swaps or certificates of deposit on the Corporation's consolidated balance sheets. However, the administrative burden of completing these periodic effectiveness tests was removed, as such tests are not required under Statement 159.

The Corporation did not adopt the provisions of Statement 159 for any other financial assets or liabilities on its consolidated balance sheets.

**Forward Starting Interest Rate Swaps**

In prior years, the Corporation had entered into forward-starting interest rate swaps in anticipation of the issuance of fixed-rate debt. In October 2005, the Corporation entered into a forward-starting interest rate swap with a notional amount of \$150.0 million in anticipation of the issuance of trust preferred securities in January 2006. In February 2007, the Corporation entered into a forward-starting interest rate swap with a notional amount of \$100.0 million in anticipation of the issuance of subordinated debt in May 2007.

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These swaps were accounted for as cash flow hedges as they hedged the variability of interest payments attributable to changes in interest rates on the forecasted issuances of fixed-rate debt. The total amounts recorded in accumulated other comprehensive income upon settlement of these derivatives are being amortized to interest expense over the lives 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 approximately \$135,000.

**NOTE I Commitments and Contingencies****Commitments**

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. Those financial instruments include commitments to extend credit and letters of credit, which involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized on the Corporation's consolidated balance sheets. Exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the outstanding amount of those instruments.

The outstanding amounts of commitments to extend credit and letters of credit were as follows:

	<b>2008</b>	<b>September 30</b> <b>2007</b> (in thousands)
Commitments to extend credit	<b>\$3,810,535</b>	\$4,430,940
Standby letters of credit	<b>778,811</b>	727,171
Commercial letters of credit	<b>35,605</b>	26,208

As of September 30, 2008, the reserve for unfunded lending commitments, included in other liabilities on the consolidated balance sheets, was \$4.8 million. Prior to December 31, 2007, the reserve for unfunded lending commitments was included as a component of the allowance for loan losses. As of December 31, 2007, the Corporation reclassified the reserve for unfunded lending commitments to other liabilities. Prior periods were not reclassified.

**Auction Rate Securities**

During 2008, developments in the market for student loan auction rate securities, also known as auction rate certificates (ARCs), resulted in the Corporation recording charges of \$2.7 million and \$15.9 million for the three and nine months ended September 30, 2008, respectively.

The Corporation's trust company subsidiary, Fulton Financial Advisors, N.A. (FFA), holds ARCs for some of its customers' accounts. ARCs are one of several types of securities that were previously utilized by FFA as short-term investment vehicles for its customers. ARCs are long-term securities structured to allow their sale in periodic auctions, giving the securities some of the characteristics of short-term instruments in normal market conditions. However, in mid-February, 2008, market auctions for ARCs began to fail due to an insufficient number of buyers; these market failures were the first widespread and continuing failures in the over 20-year history of the auction rate securities markets. As a result, although the credit quality of ARCs has not been impacted, ARCs are currently not liquid investments for their holders, including FFA's customers. It is unclear when liquidity will return to this market. FFA has agreed to purchase ARCs from customer accounts upon notification from customers that they have liquidity needs or otherwise desire to liquidate their holdings. FFA will generally purchase customer ARCs at par value with an interest adjustment, which would position customers as if they had owned 90-day U.S. Treasury bills instead of ARCs. The guarantee was recorded as a liability in accordance with FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including

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Indirect Guarantees of Indebtedness of Others an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34, and carried at estimated fair value with a corresponding pre-tax charge to earnings both upon the initial establishment of the guarantee and upon changes in its estimated fair value. The estimated fair value of the guarantee was determined based on the difference between the fair value of the underlying ARCs, assuming that all ARCs held in customer accounts would be purchased, and their estimated purchase price. The Corporation determined the fair value of the ARCs held by customers based on independent third-party valuations. See Note J, Fair Value Measurements for additional details related to the Corporation's determination of fair value. The following table presents the change in the ARC investment balances held by customers and the related financial guarantee liability, recorded within other liabilities on the Corporation's consolidated balance sheet, since establishment of the Corporation's financial guarantee liability during the second quarter of 2008:

	<b>Nine months ended September 30, 2008</b>	
	<b>ARCs Held by Customers, at Par Value</b>	<b>Financial Guarantee Liability</b>
	(in thousands)	
Upon establishment of financial guarantee	\$ 332,715	\$ (13,200)
Purchases of ARCs	(166,765)	7,138
Redemptions of ARCs	(360)	
Estimated fair value adjustment charged to expense		(2,660)
Balance at September 30, 2008	\$ 165,590	\$ (8,772)

During the three and nine months ended September 30, 2008, the Corporation purchased ARCs with a par value of \$34.2 million and \$166.8 million, respectively, from customers. The cost of the ARCs purchased, net of interest adjustments, during the three and nine months ended September 30, 2008 was approximately \$33.8 million and \$164.4 million, respectively. Upon purchase, the Corporation recorded the ARCs as available for sale investment securities at their estimated fair value. During the three and nine months ended September 30, 2008, the financial guarantee liability was reduced by an amount equal to the difference between the purchase price of the ARCs and their estimated fair value, or \$1.5 million and \$7.1 million, respectively.

Management believes that the financial guarantee liability recorded as of September 30, 2008 is adequate. Future purchases of ARCs, changes in their estimated fair value or changes in the likelihood of their purchase from customers could require the Corporation to make adjustments to the liability.

**Residential Lending Contingencies**

Residential mortgages are originated and sold by the Corporation through Fulton Mortgage Company (Fulton Mortgage), which is a division of each of the Corporation's subsidiary banks, and The Columbia Bank, which maintains its own mortgage lending operations. The loans originated and sold through these channels are predominately prime loans that conform to published standards of government sponsored agencies. Prior to 2008, the Corporation's Resource Bank affiliate operated a significant national wholesale mortgage lending operation from the time the Corporation acquired Resource Bank in 2004 through 2007. In the first quarter of 2008, the Corporation merged Resource Bank into its Fulton Bank affiliate.

For the year ended December 31, 2007, the Corporation recorded \$25.1 million of charges related to actual and potential repurchases of residential mortgage loans and home equity loans which were originated and sold to secondary market investors by the former Resource Bank's mortgage division, Resource Mortgage. Of the \$25.1 million charge, \$16.0 million and \$24.9 million were recorded during



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the three and nine months ended September 30, 2007, respectively. Resource Mortgage's national wholesale mortgage lending operation originated loans that were sold under various investor programs, including some that allowed for reduced documentation and/or no verification of certain borrower qualifications, such as income or assets.

The Corporation reduced its residential mortgage lending risk by exiting from the national wholesale mortgage business at Resource Mortgage, where the majority of the repurchased loans were originated. During the three and nine months ended September 30, 2008, the Corporation recorded \$500,000 and \$2.0 million, respectively, of additional charges related to actual and potential repurchases of residential mortgage and home equity loans, and continued to evaluate and address the loans repurchased from investors from the prior year. The charges incurred in 2008 were for mortgages originated in prior years that could potentially be repurchased.

The following table presents a summary of the approximate principal balances and related reserves/write-downs recognized on the Corporation's consolidated balance sheet, by general category:

	<b>September 30, 2008</b>	
	<b>Principal</b>	<b>Reserves/ Write-downs</b>
	(in thousands)	
Outstanding repurchase requests (1) (2)	\$ 9,900	\$ (4,290)
No repurchase request received – sold loans with identified potential misrepresentations of borrower information (1) (2)	12,300	(3,710)
Repurchased loans (3)	11,544	(1,850)
Foreclosed real estate (OREO) (4)	17,350	
Total reserves/write-downs at September 30, 2008		\$ (9,850)

(1) Principal balances had not been repurchased and, therefore, are not included on the consolidated balance sheet as of September 30, 2008.

(2) Reserve balance included as a component of other liabilities on the consolidated balance sheet as of September 30, 2008.

(3) Principal balances, net of write-downs, are included as a component of loans, net of unearned income on the consolidated balance sheet as of September 30, 2008.

(4) OREO is written down to its estimated fair value upon transfer from loans receivable.

The following presents the change in the reserve/write-down balances:

	<b>Three months ended September 30</b>		<b>Nine months ended September 30</b>	
	<b>2008</b>	2007	<b>2008</b>	2007
	(in thousands)			
Total reserves/write-downs, beginning of period	<b>\$ 17,460</b>	\$ 7,920	<b>\$ 18,620</b>	\$ 500
Additional charges to expense	<b>500</b>	16,040	<b>2,000</b>	24,940
Charge-offs	<b>(8,110)</b>	(4,190)	<b>(10,770)</b>	(5,670)
Total reserves/write-downs, end of period	<b>\$ 9,850</b>	\$ 19,770	<b>\$ 9,850</b>	\$ 19,770

During the third quarter of 2008, the Corporation entered into settlement agreements with certain secondary market investors. In total, the Corporation agreed to pay these investors \$8.3 million in settlement of outstanding repurchase requests and other potential claims, subject to certain conditions. The result of these settlements was a reduction of the Corporation's exposure to previously sold loans totaling \$16.1 million and a reduction of the reserves for repurchases of \$7.7 million.

Management believes that the reserves recorded as of September 30, 2008 are adequate for the known potential repurchases. However, continued declines in collateral values or the identification of additional loans to be repurchased could necessitate additional reserves in the future.

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**NOTE J FAIR VALUE MEASUREMENTS**

On January 1, 2008, the Corporation adopted the provisions of Statement of Financial Accounting Standards No. 157,

Fair Value Measurement (Statement 157) for all financial assets and liabilities and all nonfinancial assets and liabilities required to be measured at fair value on a recurring basis. Although the adoption of Statement 157 did not impact the values of assets and liabilities on the Corporation's consolidated balance sheets, the adoption resulted in expanded disclosure requirements for assets and liabilities recorded at fair value.

Statement 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into the following three categories (from highest to lowest priority):

Level 1 Inputs that represent quoted prices for identical instruments in active markets.

Level 2 Inputs that represent quoted prices for similar instruments in active markets, or quoted prices for identical instruments in non-active markets. Also includes valuation techniques whose inputs are derived principally from observable market data other than quoted prices, such as interest rates or other market-corroborated means.

Level 3 Inputs that are largely unobservable, as little or no market data exists for the instrument being valued. Companies are required to categorize all financial assets and liabilities and all nonfinancial assets and liabilities required to be measured at fair value on a recurring basis into the above three levels.

In February 2008, the FASB issued Staff Position No. 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2). FSP 157-2 delayed the effective date of Statement 157 for nonfinancial assets and liabilities measured at fair value on a nonrecurring basis, until fiscal years beginning after November 15, 2008, or January 1, 2009 for the Corporation. In accordance with FSP 157-2, the Corporation did not apply the provisions of Statement 157 for the following nonfinancial assets and liabilities, which are not measured at fair value on a nonrecurring basis: loans, deposits and borrowings acquired in prior years' business combinations, other intangible assets initially measured at fair value upon acquisition and reporting units tested annually for goodwill impairment under Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. The application of FSP 157-2 for these nonfinancial assets and liabilities is not expected to have an impact on their reported values.

In October 2008, the FASB issued Staff Position No. 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP 157-3). FSP 157-3 clarifies the application of Statement 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 was effective upon issuance for the Corporation.

**Table of Contents****Items Measured at Fair Value on a Recurring Basis**

The Corporation's assets and liabilities measured at fair value on a recurring basis and reported on the consolidated balance sheet as of September 30, 2008 were as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		(in thousands)		
Available for sale investment securities	\$ 57,965	\$ 2,447,898	\$ 184,735	\$ 2,690,598
Other financial assets	9,711			9,711
 Total assets	 \$ 67,676	 \$ 2,447,898	 \$ 184,735	 \$ 2,700,309
 Certificates of deposit	 \$	 \$ 13,809	 \$	 \$ 13,809
Other financial liabilities	9,711	(150)	8,722	18,283
 Total liabilities	 \$ 9,711	 \$ 13,659	 \$ 8,722	 \$ 32,092

The valuation techniques used to measure fair value for the items in the table above are as follows:

**Available for sale investment securities** Included within this asset category are both equity and debt securities. Equity securities consisting of stocks of financial institutions and mutual funds are listed as Level 1 assets, measured at fair value based on quoted prices for identical securities in active markets. Debt securities, excluding ARCs and certain single-issuer and pooled trust preferred securities, are classified as Level 2 assets and consist of: U.S. government and U.S. government sponsored securities, state and municipal securities, corporate debt securities, collateralized mortgage obligations and mortgage-backed securities. Fair values are determined by a third party pricing service using both quoted prices for similar assets, when available, and model-based valuation techniques that derive fair value based on market-corroborated data, such as instruments with similar prepayment speeds and default interest rates. See Note C, Investment Securities for additional details related to the Corporation's available for sale investment securities.

ARCs, as discussed in Note I, Commitments and Contingencies, are classified as Level 3 assets and measured at fair value based on an independent third-party valuation. All ARCs held by the Corporation were acquired during 2008. Due to their illiquidity, ARCs were valued through the use of an expected cash flows model. The assumptions used in preparing the expected cash flow model include estimates for coupon rates, a time to maturity and market rates of return.

As of September 30, 2008, the Corporation transferred pooled trust-preferred debt securities and certain single-issuer trust preferred securities, for which no current market exists, to Level 3 assets based on guidance provided within FSP 157-3. Prior to September 30, 2008, these securities were presented as Level 2 assets. As of September 30, 2008, the fair values of pooled-trust preferred debt securities were determined through the use of a discounted cash flow model which applied a credit and liquidity adjusted discount rate to expected cash flows for the securities. The fair values of single- issuer trust preferred securities included within Level 3 assets were determined based on quotes provided by third party brokers who determined fair values based predominantly on internal valuation models and were not indicative prices or binding offers.

Restricted equity securities totaling \$106.1 million, issued by the Federal Home Loan Bank and Federal Reserve Bank, have been excluded from the above table.



Other financial assets Included within this asset category are Level 1 assets, consisting of mutual funds that are held in trust for employee deferred compensation plans and measured at fair value based on quoted prices for identical securities in active markets. The Corporation maintains

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a separate Level 1 deferred compensation liability of the same amount, included within the Other financial liabilities category above, which represents the amounts due to employees under these deferred compensation plans.

**Certificates of deposit** This category consists of hedged long-term fixed rate certificates of deposit accounted for under Statement 159. The certificates of deposit and their associated interest rate swaps, included within the Other financial liabilities category, are measured at fair value through the use of a model-based approach which utilizes market prices for similar instruments in addition to using market-corroborated means, such as interest rates. See Note H, Derivative Financial Instruments for additional information.

**Other financial liabilities** Included within this category are the following liabilities: employee deferred compensation liabilities, described under the heading Other financial assets above and included as Level 1 liabilities; interest rate swaps that hedge the aforementioned certificates of deposit, categorized as Level 2 liabilities; and financial guarantees associated with the Corporation's commitment to purchase ARCs held within customer accounts, categorized as Level 3 liabilities.

The fair value of the financial guarantee liability associated with ARCs held by the Corporation's customers was determined using the same methods as the ARCs held by the Corporation and described under the heading Available for sale investment securities above. This liability was initially recorded during 2008. See Note I, Commitments and Contingencies for additional information.

The following tables present reconciliations of the Corporation's assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) for the three and nine months ended September 30, 2008:

## Three months ended September 30, 2008

	Available for Sale Investment Securities			Other Financial
	Pooled Trust	Single-issuer Trust		Liabilities
	Preferred Securities	Preferred Securities	ARC Investments	ARC Financial Guarantee
	(in thousands)			
Balance, July 1, 2008	\$	\$	\$ 124,992	\$ (7,560)
Transfers to Level 3 (1)	22,749	8,905		
Purchases (2)			32,327	1,498
Adjustment to fair value (3)			(3,839)	(2,660)
Settlements (4)			(833)	
Discount accretion (5)			434	
Balance, September 30, 2008	\$ 22,749	\$ 8,905	\$ 153,081	\$ (8,722)

**Table of Contents****Nine months ended September 30, 2008**

	Available for Sale Investment Securities			Other Financial
	Pooled Trust	Single-issuer Trust		Liabilities ARC
	Preferred Securities	Preferred Securities	ARC Investments	Financial Guarantee
	(in thousands)			
Balance, January 1, 2008	\$	\$	\$	\$
Transfers to Level 3 (1)	22,749	8,905		
Purchases (2)			157,309	7,138
Adjustment to fair value (3)			(3,930)	(15,860)
Settlements (4)			(833)	
Discount accretion (5)			535	
Balance, September 30, 2008	\$ 22,749	\$ 8,905	\$ 153,081	\$ (8,722)

(1) As of September 30, 2008, the Corporation determined that the market for these securities was not active and transferred all amounts from Level 2 to Level 3 based on fair value measurements performed.

(2) For ARC purchases above, amounts represent ARCs acquired from customers at par value with an interest adjustment based on the difference between the interest

customers  
earned on ARCs  
during their  
holding period  
and the interest  
that customers  
would have  
earned had the  
amount of the  
ARCs been  
invested in  
90-day U.S.  
Treasury bills,  
less an  
adjustment to  
fair value upon  
purchase.

- (3) Adjustment to  
fair value was  
based on a third  
party valuation  
of the ARCs  
held in customer  
accounts and by  
the Corporation  
as of  
September 30,  
2008. For ARCs  
held within  
customer  
accounts, the  
adjustment to  
fair value has  
been included as  
a component of  
operating risk  
loss on the  
Corporation's  
consolidated  
statements of  
income. For  
ARCs held by  
the Corporation  
as available for  
sale investment  
securities, the  
adjustment to  
fair value was  
recorded as an  
unrealized

holding loss.

- (4) Represent redemptions of ARCs by their issuers.
- (5) Included as a component of net interest income on the Corporation's consolidated statements of income.

**Items Measured at Fair Value on a Nonrecurring Basis**

Certain financial assets are not measured at fair value on an ongoing basis but are subject to fair value measurement in certain circumstances, such as upon their acquisition or when there is evidence of impairment.

The Corporation's financial assets measured at fair value on a nonrecurring basis and reported on the Corporation's consolidated balance sheet as of September 30, 2008 were as follows:

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
		(in thousands)		
Loans held for sale	\$	\$ 71,090	\$	\$ 71,090
Net loans		950	219,441	220,391
Other financial assets		16,526		16,526
Total assets	\$	\$ 88,566	\$ 219,441	\$ 308,007

The valuation techniques used to measure fair value for the items in the table above are as follows:

**Loans held for sale** This category consists of loans held for sale that were measured at the lower of aggregate cost or fair value. Fair value was measured by the price that secondary market investors were offering for loans with similar characteristics.

**Net loans** This category consists of residential mortgage loans and home equity loans that were previously sold and repurchased from secondary market investors during the first nine months of 2008 and have been classified as Level 2 assets. Upon repurchase, these loans were written down to the appraised value of their underlying collateral. See Note I, "Commitments and Contingencies" for additional information.

This category also includes commercial loans and commercial mortgage loans which were considered to be impaired under Statement of Financial Accounting Standards No. 114, "Accounting

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by Creditors for Impairment of a Loan and have been classified as Level 3 assets. Impaired loans are measured at fair value based on the present value of expected future cash flows discounted at the loan's effective interest rate, or at the loan's observable market price or fair value of its collateral, if the loan is collateral dependent. An allowance for loan losses is allocated to an impaired loan if its carrying value exceeds its estimated fair value. The amount shown is the balance of impaired loans, net of their related allowance for loan loss.

**Other financial assets** This category includes foreclosed assets that the Corporation obtained during the first nine months of 2008. Fair values for these Level 2 assets were based on estimated selling prices less estimated selling costs for similar assets in active markets.

**NOTE K New Accounting Standard**

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities (Statement 161). Statement 161 establishes the disclosure requirements for derivative instruments and for hedging activities, including disclosure of information that should enable users of financial information to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect a company's financial position, financial performance, and cash flows. The standard is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, or the Corporation's March 31, 2009 quarterly report on Form 10-Q. The adoption of Statement 161 is not expected to have a material impact on the Corporation's consolidated financial statements.

**NOTE L Reclassifications**

Certain amounts in the 2007 consolidated financial statements and notes have been reclassified to conform to the 2008 presentation.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Management's Discussion and Analysis of Financial Condition and Results of Operations (Management's Discussion) concerns Fulton Financial Corporation (the Corporation), a financial holding company incorporated under the laws of the Commonwealth of Pennsylvania in 1982, and its wholly owned subsidiaries. This discussion and analysis should be read in conjunction with the consolidated financial statements and notes presented in this report.

**FORWARD-LOOKING STATEMENTS**

The Corporation has made, and may continue to make, certain forward-looking statements with respect to its acquisition and growth strategies; market risk; changes or adverse developments in economic, political, or regulatory conditions; a continuation or worsening of the current disruption in credit and other markets, including the lack of or reduced access to, and the abnormal functioning of markets for mortgages and other asset-backed securities and for commercial paper and other short-term borrowings; the effect of competition and interest rates on net interest margin and net interest income; investment strategy and income growth; investment securities gains; declines in the value of securities which may result in charges to earnings; changes in rates of deposit and loan growth; asset quality and the impact on assets from adverse changes in the economy and in credit or other markets and resulting effects on credit risk and asset values; balances of risk-sensitive assets to risk-sensitive liabilities; salaries and employee benefits and other expenses; amortization of intangible assets; goodwill impairment; capital and liquidity strategies and other financial and business matters for future periods. The Corporation cautions that these forward-looking statements are subject to various assumptions, risks and uncertainties. Because of the possibility of changes in these assumptions, actual results could differ materially from forward-looking statements. The Corporation undertakes no obligations to update or revise any forward-looking statements.

**RESULTS OF OPERATIONS**

**Overview**

**Summary Financial Results**

The Corporation generates the majority of its revenue through net interest income, or the difference between interest earned on loans and investments and interest paid on deposits and borrowings. Growth in net interest income is dependent upon balance sheet growth and/or maintaining or increasing the net interest margin, which is net interest income (fully taxable-equivalent) as a percentage of average interest-earning assets. The Corporation also generates revenue through fees earned on the various services and products offered to its customers and through sales of assets, such as loans, investments or properties. Offsetting these revenue sources are provisions for credit losses on loans, operating expenses and income taxes.

During the three and nine months ended September 30, 2008, in comparison to the same periods in the prior year, the Corporation experienced strong loan growth in all loan categories, excluding consumer and construction loans. The loan growth was throughout the Corporation's geographical footprint. New loans are underwritten to the Corporation's stringent underwriting standards and are priced to compensate for risk and mitigate pressure on the net interest margin.

Obtaining customer funding for this loan growth has been, and will continue to be, a challenge. During 2008, the Corporation experienced declines in total noninterest and interest-bearing demand and savings balances. As a result, increases in short and long-term borrowings were necessary to fund loan growth. While interest rates on these borrowings have been favorable, future interest rate increases could be detrimental to net interest margin and net interest income.

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The following table presents a summary of the Corporation's earnings and selected performance ratios:

	As of or for the Three months ended September 30		As of or for the Nine months ended September 30	
	2008	2007	2008	2007
Net income (in thousands)	<b>\$29,076</b>	\$33,566	<b>\$96,250</b>	\$114,539
Diluted net income per share	<b>\$ 0.17</b>	\$ 0.19	<b>\$ 0.55</b>	\$ 0.66
Return on average assets	<b>0.73%</b>	0.88%	<b>0.81%</b>	1.03%
Return on average equity	<b>7.25%</b>	8.67%	<b>8.02%</b>	10.07%
Return on average tangible equity (1)	<b>12.72%</b>	15.76%	<b>14.00%</b>	18.42%
Net interest margin (2)	<b>3.74%</b>	3.62%	<b>3.69%</b>	3.69%
Non-performing assets to total assets	<b>1.15%</b>	0.69%	<b>1.15%</b>	0.69%
Net charge-offs to average loans (annualized)	<b>0.38%</b>	0.08%	<b>0.29%</b>	0.07%

(1) Calculated as net income, adjusted for intangible asset amortization (net of tax), divided by average shareholders equity, excluding goodwill and intangible assets.

(2) Presented on a fully taxable-equivalent (FTE) basis, using a 35% Federal tax rate and statutory interest expense disallowances. See also Net Interest Income section of Management's Discussion.

The Corporation's income before taxes for the third quarter of 2008 decreased \$7.8 million, or 16.7%, from the same period in 2007. Income before taxes for the first nine months of 2008 decreased \$30.6 million, or 18.8%, in comparison to the first nine months of 2007. The decrease in income before taxes for the three and nine months ended September 30, 2008 in comparison to the same periods in 2007 were primarily due to the following significant items:

**Decreases in income before taxes:**

Increases in the provision for loan losses of \$22.1 million and \$46.4 million for the three and nine months ended September 30, 2008, respectively.

Charges associated with the other-than-temporary impairment of investment securities of \$10.7 million and \$39.3 million for the three and nine months ended September 30, 2008, respectively.



Charges related to the Corporation's decision to purchase auction rate securities from customer accounts of \$2.7 million and \$15.9 million for the three and nine months ended September 30, 2008, respectively.

Increases in income before taxes:

Increases in net interest income of \$11.6 million and \$26.7 million for the three and nine months ended September 30, 2008, respectively.

A \$13.9 million gain on the sale of the Corporation's credit card portfolio, recognized in the second quarter of 2008.

A reduction in charges associated with the Corporation's contingent losses related to the potential repurchase of residential mortgage and home equity loans of \$15.5 million and \$22.9 million for the three and nine months ended September 30, 2008, respectively. See Note I, "Commitments and Contingencies" in the Notes to Consolidated Financial Statements for additional details.

Asset Quality Asset quality refers to the underlying credit characteristics of borrowers and the likelihood that defaults on contractual loan payments will result in charge-offs of account balances, which, in turn, result in provisions for loan losses recorded on the consolidated statements of income. By its nature, risk in lending cannot be completely eliminated, but it can be controlled and managed through proper underwriting policies, effective collection procedures and risk management activities. External factors, such as economic conditions, which cannot be controlled by the Corporation, will always have some effect on asset quality, regardless of the strength of an organization's control policies and procedures. During 2008, the banking industry in general, including the Corporation, has been negatively impacted by deteriorating economic conditions. Significant declines in residential real estate values has

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led to an increase in defaults on mortgages and a slowing of the housing markets. This, in turn, has had a detrimental impact on developers and their ability to meet the contractual payments on their loans. Furthermore, weakening economic conditions have impacted other types of credit extended by banks.

The Corporation's non-performing assets increased significantly, from \$107.0 million, or 0.69% of total assets, at September 30, 2007 to \$186.4 million, or 1.15% of total assets, at September 30, 2008. The increase was primarily due to deteriorating general economic conditions, which have negatively impacted consumer confidence and residential real estate values. The Corporation's non-performing assets increased across all loan types, geographic areas, and industries.

The increase in non-performing assets and net charge-offs contributed to the provision for loan losses increasing \$22.1 million, or 479.7%, in comparison to the third quarter of 2007. The provision for loan losses for the first nine months of 2008 increased \$46.4 million, or 561.1%, in comparison to the first nine months of 2007.

Management believes that its policies and procedures for managing asset quality are sound. However, no assurance regarding asset quality in the future can be given. Continuing negative trends in general economic conditions and decreases in the values of underlying collateral could have a detrimental impact on borrowers' ability to repay their loans.

*Other-Than-Temporary Impairment of Investment Securities* During the three and nine months ended September 30, 2008, the Corporation recorded charges of \$10.7 million and \$39.3 million for the other-than-temporary impairment of investment securities, recorded within Investment securities (losses) gains on the consolidated statements of income.

The Corporation had a portfolio of financial institution stocks at September 30, 2008 with a cost basis of \$55.2 million and a fair value of \$54.3 million. During the three and nine months ended September 30, 2008, the Corporation's other-than-temporary impairment charges related to financial institution stocks were \$2.0 million and \$30.3 million, respectively. Uncertainty surrounding the financial institution sector as a whole negatively impacted the value of these securities. Beginning in 2007 and continuing through the third quarter of 2008, the values of financial institution stocks, including those held by the Corporation, declined significantly. The other-than-temporary impairment charges recorded during the nine months ended September 30, 2008 was due to the increasing severity and duration of the decline in fair values of the stocks written down. These factors, in conjunction with management's evaluation of the near-term prospects of each specific issuer, resulted in the impairment charges.

During the three and nine months ended September 30, 2008, the Corporation also recorded \$816,000 and \$1.2 million in other-than-temporary impairment charges for other equity securities in the form of mutual fund investments and stocks of government sponsored agencies.

During the third quarter of 2008, the Corporation recorded an other-than-temporary charge of \$7.8 million for corporate debt securities. The \$7.8 million charge included a \$4.9 million charge for the write-off of an investment in subordinated debt issued by a failed financial institution and a \$3.0 million charge for a pooled trust preferred security, also issued by financial institutions, for which the carrying value exceeds the future expected cash flows. The fair value of the pooled-trust preferred debt security was determined through the use of a discounted cash flow model which applied a credit and liquidity adjusted discount rate to expected cash flows for the securities. See Note J, Fair Value Measurements in the Notes to Consolidated Financial Statements and the Market Risk section of Management's Discussion for additional details. As of September 30, 2008, the Corporation had debt securities backed by financial institutions, with a cost basis of \$170.1 million and fair value of \$128.9 million, after other-than-temporary write-downs. See Note C, Investment Securities in the Notes to the Consolidated Financial Statements for additional details.

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Further declines in financial institution stock values or in the values of debt securities issued by financial institutions may result in additional other-than-temporary impairment charges, in the future.

**Auction Rate Securities** Current year developments in the market for student loan auction rate securities, also known as auction rate certificates (ARCs), resulted in the Corporation recording pre-tax charges of \$2.7 million and \$15.9 million, as components of operating risk loss on the consolidated statements of income, during the three and nine months ended September 30, 2008, respectively.

The Corporation's trust company subsidiary, Fulton Financial Advisors, N.A. (FFA), holds ARCs for some of its customers' accounts. ARCs are one of several types of securities that were previously utilized by FFA as short-term investment vehicles for its customers. ARCs are long-term securities structured to allow their sale in periodic auctions, giving the securities some of the characteristics of short-term instruments in normal market conditions. However, in mid-February, 2008, market auctions for ARCs began to fail due to an insufficient number of buyers; these market failures were the first widespread and continuing failures in the over 20-year history of the auction rate securities markets. As a result, although the credit quality of ARCs has not been impacted, ARCs are currently not liquid investments for their holders, including FFA's customers. It is unclear when liquidity will return to this market. Beginning in the second quarter of 2008, FFA agreed to purchase ARCs from customer accounts upon notification from customers that they have liquidity needs or otherwise desire to liquidate their holdings. FFA generally agreed to purchase customer ARCs at par value with an interest adjustment, which would position customers as if they had owned 90-day U.S. Treasury bills instead of ARCs. The estimated fair value of this guarantee was recorded as a liability in accordance with the Financial Accounting Standards Board's Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" and an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34, with a corresponding pre-tax charge to earnings. Upon establishment of the guarantee in the second quarter of 2008, \$332.7 million of ARCs, at par value, were held in customer accounts.

As of September 30, 2008, after purchases by the Corporation and redemptions of ARCs by customers, the total balance of ARCs in customer accounts was \$165.6 million. Included within "Available for sale" investment securities on the Corporation's consolidated balance sheet are ARCs with a total cost of \$157.0 million and a fair value of \$153.1 million.

See Note I, "Commitments and Contingencies" in the Notes to Consolidated Financial Statements and the "Market Risk" section of Management's Discussion for additional details.

**Net Interest Margin and Net Interest Income** The improvement in net interest income in comparison to the three and nine months ended September 30, 2007 was largely due to an increase in average interest-earning assets.

Also contributing to the improvement in net interest income was the fact that interest rates paid on short-term borrowings and many deposit balances declined more quickly than interest rates earned on assets. Decreases in interest rates on short-term borrowings and deposit balances were the result of the Federal Reserve Board (FRB) lowering the Federal Funds rate a total of 275 basis points since September 30, 2007 (from 4.75% to 2.00%). For the three months ended September 30, 2008, interest expense decreased \$36.5 million, or 31.4%, while interest income decreased \$24.9 million, or 10.4%. For the first nine months of 2008, interest expense decreased \$67.8 million, or 20.3%, while interest income decreased \$41.1 million, or 5.9%. The more pronounced decreases in interest expense during the three and nine months ended September 30, 2008 in comparison to the same periods in 2007 contributed to the increase to net interest income for both periods. The continued repricing of assets and the inability to move deposit rates lower in similar increments may mitigate this benefit in the future.

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Finally, the improvement in net interest income was also due to a change in the composition of interest-bearing liabilities in 2008 in comparison to 2007. During the three and nine months ended September 30, 2008, decreases in time deposits and interest-bearing deposits were replaced with lower-cost overnight short-term borrowings.

The Corporation manages its risk associated with changes in interest rates through the techniques described in the Market Risk section of Management's Discussion.

*Sale of Credit Card Portfolio* In April 2008, the Corporation sold its approximately \$87 million credit card portfolio to U.S. Bank National Association ND, d/b/a Elan Financial Services (Elan). As a result of this sale, the Corporation recorded a \$13.9 million gain in the second quarter of 2008.

Under a separate agreement with Elan, the Corporation provides ongoing marketing services on behalf of Elan and receives fee income for each new account originated and a percentage of the revenue earned on both new accounts and accounts sold. During the three and nine months ended September 30, 2008, the Corporation recognized \$1.3 million and \$2.4 million, respectively, of credit card fee income, included within other income on the consolidated statements of income, in connection with this agreement.

The sale of the credit card portfolio has reduced, and will continue to impact, the Corporation's net interest income for the remainder of 2008. During the year ended December 31, 2007, interest income earned on the credit card portfolio was \$14.8 million, or 1.6% of total interest income, at an average yield of 19.2%. In 2008, prior to the sale of the credit card portfolio, the Corporation recognized interest income on the credit card portfolio of \$5.1 million at an average yield of 20.1%. Assuming the funding for credit cards was provided by Federal funds purchased, the net interest income impact for 2008 and 2007 would be approximately \$4.3 million and \$10.9 million, respectively. Despite the negative impact to the Corporation's net interest margin, the sale of the credit card portfolio has resulted in a reduction of consumer credit risk, while providing a future revenue stream.

*Quarter Ended September 30, 2008 compared to the Quarter Ended September 30, 2007*

*Net Interest Income*

Net interest income increased \$11.6 million, or 9.5%, to \$134.0 million in 2008 from \$122.4 million in 2007 due to both an increase in average interest-earning assets and an increase in the net interest margin.

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The following table provides a comparative average balance sheet and net interest income analysis for the third quarter of 2008 as compared to the same period in 2007. Interest income and yields are presented on an FTE basis, using a 35% Federal tax rate and statutory interest expense disallowances. The discussion following this table is based on these FTE amounts. All dollar amounts are in thousands.

	Three months ended September 30					
	2008			2007		
	Average Balance	Interest (1)	Yield/ Rate	Average Balance	Interest (1)	Yield/ Rate
<b>ASSETS</b>						
Interest-earning assets:						
Loans, net of unearned income (2)	\$ 11,696,841	\$ 181,562	6.18%	\$ 10,857,636	\$ 205,747	7.52%
Taxable investment securities (3)	2,117,207	26,025	4.70	2,116,123	24,583	4.65
Tax-exempt investment securities (3)	509,994	6,944	5.45	499,389	6,377	5.11
Equity securities (1) (3)	168,690	1,614	3.82	188,490	2,269	4.80
Total investment securities	2,795,891	34,583	4.78	2,804,002	33,229	4.74
Loans held for sale	101,319	1,539	6.08	159,492	2,694	6.76
Other interest-earning assets	19,013	142	2.94	34,536	432	4.91
Total interest-earning assets	14,613,064	217,826	5.91%	13,855,666	242,102	6.95%
Noninterest-earning assets:						
Cash and due from banks	322,550			338,862		
Premises and equipment	197,895			190,175		
Other assets	933,303			890,901		
Less: Allowance for loan losses	(123,865)			(108,628)		
<i>Total Assets</i>	<b>\$ 15,942,947</b>			<b>\$ 15,166,976</b>		
<b>LIABILITIES AND EQUITY</b>						
Interest-bearing liabilities:						
Demand deposits	\$ 1,734,198	\$ 3,166	0.73%	\$ 1,729,357	\$ 7,630	1.75%
Savings deposits	2,192,747	6,633	1.20	2,259,231	13,680	2.40
Time deposits	4,308,903	37,393	3.45	4,626,160	55,093	4.72
Total interest-bearing deposits	8,235,848	47,192	2.28	8,614,748	76,403	3.52
Short-term borrowings	2,432,109	12,877	2.08	1,477,288	17,786	4.74
FHLB advances and long-term debt	1,819,897	19,722	4.32	1,655,599	22,141	5.32
Total interest-bearing liabilities	12,487,854	79,791	2.54%	11,747,635	116,330	3.93%
Noninterest-bearing liabilities:						
Demand deposits	1,669,908			1,703,137		
Other	190,012			179,391		
<i>Total Liabilities</i>	<b>14,347,774</b>			<b>13,630,163</b>		
Shareholders' equity	1,595,173			1,536,813		

*Total Liabilities and Shareholders  
Equity*

**\$ 15,942,947**

\$ 15,166,976

Net interest income/net interest  
margin (FTE)

**138,035**

**3.74%**

125,772

3.62%

Tax equivalent adjustment

**(4,017)**

(3,362)

Net interest income

**\$ 134,018**

\$ 122,410

&n