FULTON FINANCIAL CORP
Form 10-Q
August 09, 2010
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# 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, 2010,**

**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    198,792,000 shares outstanding as of July 31, 2010.

**FULTON FINANCIAL CORPORATION**

**FORM 10-Q FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2010**

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**Item 1. Financial Statements**

**FULTON FINANCIAL CORPORATION**

**CONSOLIDATED BALANCE SHEETS**

**(in thousands, except per-share data)**

| | **June 30<br>2010<br>(unaudited)** | **December 31<br>2009** |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | **$ 268,371** | $ 284,508 |
| Interest-bearing deposits with other banks | **433,687** | 16,591 |
| Loans held for sale | **93,504** | 85,384 |
| Investment securities: | | |
| Held to maturity (estimated fair value of $8,145 in 2010 and $8,797 in 2009) | **8,054** | 8,700 |
| Available for sale | **2,884,836** | 3,258,386 |
| Loans, net of unearned income | **11,943,384** | 11,972,424 |
| Less: Allowance for loan losses | **(272,042)** | (256,698) |
| *Net Loans* | **11,671,342** | 11,715,726 |
| Premises and equipment | **205,299** | 204,203 |
| Accrued interest receivable | **54,763** | 58,515 |
| Goodwill | **535,256** | 534,862 |
| Intangible assets | **15,046** | 17,701 |
| Other assets | **456,719** | 451,059 |
| *Total Assets* | **$ 16,626,877** | $ 16,635,635 |
| **LIABILITIES** | | |
| Deposits: | | |
| Noninterest-bearing | **$ 2,147,153** | $ 2,012,837 |
| Interest-bearing | **10,198,319** | 10,085,077 |
| *Total Deposits* | **12,345,472** | 12,097,914 |
| Short-term borrowings: | | |
| Federal funds purchased | **9,567** | 378,067 |
| Other short-term borrowings | **448,767** | 490,873 |
| *Total Short-Term Borrowings* | **458,334** | 868,940 |
| Accrued interest payable | **43,292** | 46,596 |

| | | |
|---|---|---|
| Other liabilities | **182,880** | 144,930 |
| Federal Home Loan Bank advances and long-term debt | **1,365,688** | 1,540,773 |
| *Total Liabilities* | **14,395,666** | 14,699,153 |
| **SHAREHOLDERS EQUITY** | | |
| Preferred stock, $1,000 par value, 376,500 shares authorized and outstanding | **371,009** | 370,290 |
| Common stock, $2.50 par value, 600 million shares authorized, 214.9 million shares issued in 2010 and 193.0 million shares issued in 2009 | **537,370** | 482,491 |
| Additional paid-in capital | **1,430,270** | 1,257,730 |
| Retained earnings | **109,287** | 71,999 |
| Accumulated other comprehensive income: | | |
| Unrealized gains on investment securities not other-than-temporarily impaired | **49,470** | 24,975 |
| Unrealized non-credit related losses on other-than-temporarily impaired debt securities | **(5,844)** | (8,349) |
| Unrecognized pension and postretirement plan costs | **(5,905)** | (5,942) |
| Unamortized effective portions of losses on forward-starting interest rate swaps | **(3,159)** | (3,226) |
| *Accumulated other comprehensive income* | **34,562** | 7,458 |
| Treasury stock, 16.5 million shares in 2010 and 16.6 million shares in 2009, at cost | **(251,287)** | (253,486) |
| *Total Shareholders Equity* | **2,231,211** | 1,936,482 |
| *Total Liabilities and Shareholders Equity* | **$ 16,626,877** | $ 16,635,635 |

*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)**

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| **INTEREST INCOME** | | | | |
| Loans, including fees | **$ 157,628** | $ 162,276 | **$ 315,162** | $ 324,590 |
| Investment securities: | | | | |
| Taxable | **25,146** | 29,422 | **53,295** | 56,272 |
| Tax-exempt | **3,348** | 4,176 | **6,943** | 8,652 |
| Dividends | **660** | 555 | **1,389** | 1,172 |
| Loans held for sale | **667** | 1,628 | **1,223** | 2,889 |
| Other interest income | **231** | 40 | **256** | 89 |
| *Total Interest Income* | **187,680** | 198,097 | **378,268** | 393,664 |
| **INTEREST EXPENSE** | | | | |
| Deposits | **31,819** | 48,007 | **65,557** | 97,902 |
| Short-term borrowings | **390** | 921 | **939** | 2,358 |
| Long-term debt | **16,313** | 21,225 | **34,105** | 41,344 |
| *Total Interest Expense* | **48,522** | 70,153 | **100,601** | 141,604 |
| *Net Interest Income* | **139,158** | 127,944 | **277,667** | 252,060 |
| Provision for loan losses | **40,000** | 50,000 | **80,000** | 100,000 |
| *Net Interest Income After Provision for Loan Losses* | **99,158** | 77,944 | **197,667** | 152,060 |
| **OTHER INCOME** | | | | |
| Service charges on deposit accounts | **15,482** | 15,061 | **29,749** | 29,955 |
| Other service charges and fees | **10,522** | 9,595 | **19,894** | 17,949 |
| Investment management and trust services | **8,655** | 7,876 | **16,743** | 15,779 |
| Gains on sales of mortgage loans | **3,063** | 7,395 | **6,427** | 15,986 |
| Other | **5,339** | 5,373 | **9,938** | 9,626 |
| Total other-than-temporary impairment losses | **(4,334)** | (8,168) | **(9,585)** | (14,024) |
| Less: Portion of loss recognized in other comprehensive income (before taxes) | **836** | 4,789 | **1,110** | 7,605 |
| Net other-than-temporary impairment losses | **(3,498)** | (3,379) | **(8,475)** | (6,419) |
| Net gains on sale of investment securities | **4,402** | 3,456 | **7,156** | 9,415 |
| Net investment securities gains (losses) | **904** | 77 | **(1,319)** | 2,996 |
| *Total Other Income* | **43,965** | 45,377 | **81,432** | 92,291 |
| **OTHER EXPENSES** | | | | |
| Salaries and employee benefits | **54,654** | 55,799 | **106,999** | 111,103 |
| Net occupancy expense | **10,519** | 10,240 | **22,169** | 21,263 |

| | | | | |
|---|---|---|---|---|
| FDIC insurance expense | **5,136** | 12,206 | **10,090** | 16,494 |
| Professional fees | **3,035** | 2,088 | **5,581** | 4,316 |
| Equipment expense | **2,663** | 3,300 | **5,754** | 6,379 |
| Data processing | **2,364** | 2,907 | **4,988** | 5,979 |
| Marketing | **2,271** | 1,724 | **4,101** | 4,295 |
| Telecommunications | **2,086** | 2,181 | **4,356** | 4,344 |
| Intangible amortization | **1,341** | 1,434 | **2,655** | 2,897 |
| Operating risk loss | **640** | 144 | **1,151** | 6,345 |
| Other | **15,449** | 15,783 | **31,543** | 30,763 |
| *Total Other Expenses* | **100,158** | 107,806 | **199,387** | 214,178 |
| *Income Before Income Taxes* | **42,965** | 15,515 | **79,712** | 30,173 |
| Income taxes | **11,283** | 2,404 | **20,550** | 3,977 |
| *Net Income* | **31,682** | 13,111 | **59,162** | 26,196 |
| Preferred stock dividends and discount accretion | **(5,066)** | (5,046) | **(10,131)** | (10,077) |
| *Net Income Available to Common Shareholders* | **$ 26,616** | $ 8,065 | **$ 49,031** | $ 16,119 |
| **PER COMMON SHARE:** | | | | |
| Net income (basic) | **$ 0.14** | $ 0.05 | **$ 0.27** | $ 0.09 |
| Net income (diluted) | **0.14** | 0.05 | **0.27** | 0.09 |
| Cash dividends | **0.03** | 0.03 | **0.06** | 0.06 |

*See Notes to Consolidated Financial Statements*

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**FULTON FINANCIAL CORPORATION**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME (UNAUDITED)**

**SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

| | | Common Stock | | | | Accumulated Other Comprehensive | | |
|---|---|---|---|---|---|---|---|---|
| | Preferred Stock | Shares Outstanding | Amount | Additional Paid-in Capital | Retained Earnings | Income (Loss) | Treasury Stock | Total |
| | | | | | (in thousands) | | | |
| 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** |
| Balance at December 31, 2008 | $ 368,944 | 175,044 | $ 480,978 | $ 1,260,947 | $ 31,075 | $ (17,907) | $ (264,390) | $ 1,859,647 |
| Cumulative effect of FSP FAS 115-2 and FAS 124-2 adoption (net of $3.4 million tax effect) | | | | | 6,298 | (6,298) | | 0 |
| Comprehensive income: | | | | | | | | |
| Net income | | | | | 26,196 | | | 26,196 |
| Other comprehensive loss | | | | | | (482) | | (482) |
| *Total comprehensive income* | | | | | | | | 25,714 |
| Stock issued, including related tax benefits | | 662 | 441 | (3,147) | | | 7,412 | 4,706 |
| Stock-based compensation awards | | | | 827 | | | | 827 |
| Preferred stock discount accretion | 666 | | | | (666) | | | 0 |
| Preferred stock cash dividends | | | | | (7,424) | | | (7,424) |
| Common stock cash dividends - $0.06 per share | | | | | (10,542) | | | (10,542) |
| Balance at June 30, 2009 | $ 369,610 | 175,706 | $ 481,419 | $ 1,258,627 | $ 44,937 | $ (24,687) | $ (256,978) | $ 1,872,928 |

*See Notes to Consolidated Financial Statements*

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**FULTON FINANCIAL CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

**(in thousands)**

| | Six Months Ended June 30 | |
|---|---|---|
| | **2010** | **2009** |
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net Income | **$ 59,162** | $ 26,196 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | **80,000** | 100,000 |
| Depreciation and amortization of premises and equipment | **10,261** | 10,148 |
| Net amortization of investment securities premiums | **1,187** | 1,081 |
| Investment securities (gains) losses | **1,319** | (2,996) |
| Net increase in loans held for sale | **(8,120)** | (146,599) |
| Amortization of intangible assets | **2,655** | 2,897 |
| Stock-based compensation | **611** | 827 |
| Decrease in accrued interest receivable | **3,752** | 489 |
| Increase in other assets | **(256)** | (24,941) |
| (Decrease) increase in accrued interest payable | **(3,304)** | 7,793 |
| Increase in other liabilities | **3,236** | 14,987 |
| Total adjustments | **91,341** | (36,314) |
| *Net cash provided by (used in) operating activities* | **150,503** | (10,118) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Proceeds from sales of securities available for sale | **276,691** | 179,083 |
| Proceeds from maturities of securities held to maturity | **227** | 3,101 |
| Proceeds from maturities of securities available for sale | **388,152** | 401,328 |
| Purchase of securities held to maturity | **(122)** | (3,056) |
| Purchase of securities available for sale | **(245,875)** | (1,349,391) |
| Increase in short-term investments | **(417,096)** | (4,180) |
| Net (increase) decrease in loans | **(28,136)** | 116,619 |
| Net purchases of premises and equipment | **(11,357)** | (12,565) |
| *Net cash used in investing activities* | **(37,516)** | (669,061) |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Net increase in demand and savings deposits | **523,628** | 718,931 |
| Net (decrease) increase in time deposits | **(276,070)** | 445,450 |
| Additions to long-term debt | **45,000** | 0 |
| Repayments of long-term debt | **(220,085)** | (36,830) |
| Decrease in short-term borrowings | **(410,606)** | (445,477) |
| Dividends paid | **(19,998)** | (38,947) |
| Net proceeds from issuance of stock | **229,007** | 4,706 |
| *Net cash (used in) provided by financing activities* | **(129,124)** | 647,833 |

| | | |
|---|---|---|
| **Net Decrease in Cash and Due From Banks** | **(16,137)** | (31,346) |
| **Cash and Due From Banks at Beginning of Year** | **284,508** | 331,164 |
| **Cash and Due From Banks at End of Period** | **$ 268,371** | $ 299,818 |
| **Supplemental Disclosures of Cash Flow Information** | | |
| Cash paid during the period for: | | |
| Interest | **$ 103,905** | $ 133,811 |
| Income taxes | **24,039** | 9,014 |

*See Notes to Consolidated Financial Statements*

**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, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. 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 (Loss)

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.

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** | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| | **(in thousands)** | | | |
| Weighted average shares outstanding (basic) | **190,221** | 175,554 | **183,236** | 175,435 |
| Effect of dilutive securities | **606** | 170 | **557** | 202 |
| Weighted average shares outstanding (diluted) | **190,827** | 175,724 | **183,793** | 175,637 |
| Stock options and common stock warrants excluded from the diluted net income per share computation as their effect would have been anti-dilutive | **4,887** | 11,957 | **8,001** | 11,887 |

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

| | Six months ended June 30 | |
|---|---|---|
| | **2010** | **2009** |
| | **(in thousands)** | |
| Unrealized gain on securities (net of $15.2 million and $2.1 million tax effect in 2010 and 2009, respectively) | **$ 28,277** | $ 3,929 |
| Non-credit related unrealized loss on other-than-temporarily impaired debt securities (net of $1.2 million and $2.7 million tax effect, respectively) | **(2,137)** | (4,944) |
| Unrealized gain on derivative financial instruments (net of $36,000 tax effect in 2010 and 2009) (1) | **68** | 68 |
| Unrealized postretirement gains arising in 2009 due to plan amendment (net of $1.2 million tax effect) | **0** | 2,125 |
| Amortization of unrecognized pension and postretirement costs (net of $20,000 and $155,000 tax effect in 2010 and 2009, respectively) | **38** | 288 |
| Reclassification adjustment for securities losses (gains) included in net income (net of $461,000 tax benefit in 2010 and $1.0 million tax expense in 2009) | **858** | (1,948) |
| Other comprehensive income (loss) | **$ 27,104** | $ (482) |

(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 Common Stock Offering**

On May 5, 2010, the Corporation issued 21.8 million shares of its common stock, in an underwritten public offering, for total proceeds of $226.3 million, net of underwriting discounts and commissions. The Corporation intended to use the net proceeds from this offering, together with other funds, to redeem all of the Series A Preferred Stock that it issued to the U.S. Department of the Treasury (UST) upon receipt of all required regulatory approvals.

See Note M, Subsequent Event for details related to the redemption of the Series A Preferred Stock.

**NOTE D Investment Securities**

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

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| | | (in thousands) | | |
| **Held to Maturity at June 30, 2010** | | | | |
| U.S. Government sponsored agency securities | $ 6,294 | $ 10 | $ 0 | $ 6,304 |
| State and municipal securities | 503 | 0 | 0 | 503 |
| Mortgage-backed securities | 1,257 | 81 | 0 | 1,338 |
| | $ 8,054 | $ 91 | $ 0 | $ 8,145 |
| **Available for Sale at June 30, 2010** | | | | |
| Equity securities | $ 139,624 | $ 3,290 | $ (2,972) | $ 139,942 |
| U.S. Government securities | 1,324 | 0 | 0 | 1,324 |
| U.S. Government sponsored agency securities | 11,937 | 368 | (3) | 12,302 |
| State and municipal securities | 349,634 | 10,192 | (5) | 359,821 |
| Corporate debt securities | 147,096 | 2,003 | (25,855) | 123,244 |
| Collateralized mortgage obligations | 1,003,164 | 36,087 | (526) | 1,038,725 |
| Mortgage-backed securities | 882,175 | 50,764 | 0 | 932,939 |
| Auction rate securities | 282,765 | 2,109 | (8,335) | 276,539 |
| | $ 2,817,719 | $ 104,813 | $ (37,696) | $ 2,884,836 |
| **Held to Maturity at December 31, 2009** | | | | |
| U.S. Government sponsored agency securities | $ 6,713 | $ 7 | $ 0 | $ 6,720 |
| State and municipal securities | 503 | 0 | 0 | 503 |
| Mortgage-backed securities | 1,484 | 90 | 0 | 1,574 |
| | $ 8,700 | $ 97 | $ 0 | $ 8,797 |
| **Available for Sale at December 31, 2009** | | | | |
| Equity securities | $ 142,531 | $ 2,758 | $ (4,919) | $ 140,370 |
| U.S. Government securities | 1,325 | 0 | 0 | 1,325 |
| U.S. Government sponsored agency securities | 91,079 | 905 | (28) | 91,956 |
| State and municipal securities | 406,011 | 9,819 | (57) | 415,773 |
| Corporate debt securities | 154,029 | 424 | (37,714) | 116,739 |
| Collateralized mortgage obligations | 1,102,169 | 25,631 | (4,804) | 1,122,996 |
| Mortgage-backed securities | 1,043,518 | 36,948 | (442) | 1,080,024 |
| Auction rate securities | 292,145 | 3,227 | (6,169) | 289,203 |
| | $ 3,232,807 | $ 79,712 | $ (54,133) | $ 3,258,386 |

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The amortized cost and estimated fair value of debt securities as of June 30, 2010, 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 | $ 6,451 | $ 6,461 | $ 57,891 | $ 58,559 |
| Due from one year to five years | 346 | 346 | 117,245 | 120,442 |
| Due from five years to ten years | 0 | 0 | 87,124 | 89,199 |
| Due after ten years | 0 | 0 | 530,496 | 505,030 |
| | 6,797 | 6,807 | 792,756 | 773,230 |
| Collateralized mortgage obligations | 0 | 0 | 1,003,164 | 1,038,725 |
| Mortgage-backed securities | 1,257 | 1,338 | 882,175 | 932,939 |
| | $ 8,054 | $ 8,145 | $ 2,678,095 | $ 2,744,894 |

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, 2010:** | | | | |
| Equity securities | **$ 14** | **$ 0** | **$ (509)** | **$ (495)** |
| Debt securities | **4,401** | **(13)** | **(2,989)** | **1,399** |
| Total | **$ 4,415** | **$ (13)** | **$ (3,498)** | **$ 904** |
| Three months ended June 30, 2009: | | | | |
| Equity securities | $ 479 | $ (65) | $ (728) | $ (314) |
| Debt securities | 3,042 | | (2,651) | 391 |
| Total | $ 3,521 | $ (65) | $ (3,379) | $ 77 |
| **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)** |
| Six months ended June 30, 2009: | | | | |
| Equity securities | $ 591 | $ (281) | $ (1,790) | $ (1,480) |
| Debt securities | 9,213 | (108) | (4,629) | 4,476 |

| | | | | |
|---|---|---|---|---|
| Total | $ 9,804 | $ (389) | $ (6,419) | $ 2,996 |

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The following table presents a summary of other-than-temporary impairment charges recorded by the Corporation, by investment security type:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| | | **(in thousands)** | | |
| Financial institution stocks | **$ 509** | $ 728 | **$ 1,333** | $ 1,684 |
| Mutual funds | | | | 106 |
| Total equity securities charges | **509** | 728 | **1,333** | 1,790 |
| Debt securities - pooled trust preferred securities | **2,989** | 2,651 | **7,142** | 4,629 |
| Total other-than-temporary impairment charges | **$ 3,498** | $ 3,379 | **$ 8,475** | $ 6,419 |

The $509,000 and $1.3 million of other-than-temporary impairment charges related to financial institution stocks during the three and six months ended June 30, 2010, respectively, were due to the increasing 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, 2010, after other-than-temporary impairment charges, the financial institutions stock portfolio had a cost basis of $30.9 million and a fair value of $31.1 million.

During the three and six months ended June 30, 2010, the Corporation recorded $3.0 million and $7.1 million, respectively, of other-than-temporary impairment losses for pooled trust preferred securities based on an expected cash flows model.

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

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| | | **(in thousands)** | | |
| Balance of cumulative credit losses on pooled trust preferred securities, beginning of period | **$ (19,765)** | $ (8,120) | **$ (15,612)** | $ (6,142) |
| Additions for credit losses recorded which were not previously recognized as components of earnings | **(2,989)** | (2,651) | **(7,142)** | (4,629) |
| Ending balance of cumulative credit losses on pooled trust preferred securities, end of period | **$ (22,754)** | $ (10,771) | **$ (22,754)** | $ (10,771) |

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, 2010:

| | 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 | $ 0 | $ 0 | $ 403 | $ (3) | $ 403 | $ (3) |
| State and municipal securities | 0 | 0 | 400 | (5) | 400 | (5) |
| Corporate debt securities | 4,521 | (487) | 76,275 | (25,368) | 80,796 | (25,855) |
| Collateralized mortgage obligations | 21,847 | (526) | 0 | 0 | 21,847 | (526) |
| Auction rate securities | 20,511 | (947) | 178,042 | (7,388) | 198,553 | (8,335) |
| Total debt securities | 46,879 | (1,960) | 255,120 | (32,764) | 301,999 | (34,724) |
| Equity securities | 12,696 | (2,383) | 1,755 | (589) | 14,451 | (2,972) |
| | $ 59,575 | $ (4,343) | $ 256,875 | $ (33,353) | $ 316,450 | $ (37,696) |

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, 2010 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.

As of June 30, 2010, approximately $231 million, or 84%, of the ARCs were rated above investment grade, with approximately $175 million, or 63%, AAA rated by at least one ratings agency. Approximately $29 million, or 11%, of ARCs were rated below investment grade by at least one ratings agency. Of this amount, approximately $17 million, or 57%, of the student loans underlying the ARCs have principal payments which are guaranteed by the Federal government. In total, approximately $245 million, or 88%, of the student loans underlying the ARCs have principal payments which are guaranteed by the Federal government. At June 30, 2010, 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, 2010.

The Corporation s collateralized mortgage obligations 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 those investments to be other-than-temporarily impaired as of June 30, 2010.

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

| | June 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Amortized cost | Estimated fair value | Amortized cost | Estimated fair value |
| | (in thousands) | | | |
| Single-issuer trust preferred securities | **$ 95,524** | **$ 81,012** | $ 95,481 | $ 75,811 |
| Subordinated debt | **34,941** | **34,835** | 34,886 | 32,722 |
| Pooled trust preferred securities | **13,513** | **4,279** | 20,435 | 4,979 |
| Corporate debt securities issued by financial institutions | **143,978** | **120,126** | 150,802 | 113,512 |
| Other corporate debt securities | **3,118** | **3,118** | 3,227 | 3,227 |
| Available for sale corporate debt securities | **$ 147,096** | **$ 123,244** | $ 154,029 | $ 116,739 |

The Corporation s investments in single-issuer trust preferred securities had an unrealized loss of $14.5 million as of June 30, 2010. The Corporation did not record any other-than-temporary impairment charges for single-issuer trust preferred securities during the three and six months ended June 30, 2010 or 2009, respectively. The Corporation holds 11 single-issuer trust preferred securities that were rated below investment grade by at least one ratings agency, with an amortized cost of $37.1 million and an estimated fair value of $32.2 million as of June 30, 2010. 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 $13.7 million and an estimated fair value of $10.6 million as of June 30, 2010, were not rated by any ratings agency.

The Corporation holds ten pooled trust preferred securities. Nine of these securities, with an amortized cost of $12.6 million and an estimated fair value of $3.7 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 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 30% as of June 30, 2010. The discounted cash flow modeling for pooled trust preferred securities held by the Corporation as of June 30, 2010 assumed, on average, an additional 12% expected deferral rate.

Based on management s other-than-temporary impairment evaluations, 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, which may be maturity, corporate debt securities with a fair value of $123.2 million were not considered to be other-than-temporarily impaired as of June 30, 2010.

**NOTE E Loans and Allowance for Credit Losses**

The following table presents a summary of gross loans, by type:

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| | (in thousands) | |
| Real-estate commercial mortgage | **$ 4,330,630** | $ 4,292,300 |
| Commercial industrial, financial and agricultural | **3,664,603** | 3,699,198 |
| Real-estate home equity | **1,637,171** | 1,644,260 |
| Real-estate residential mortgage | **985,345** | 921,741 |
| Real-estate construction | **893,305** | 978,267 |
| Consumer | **368,631** | 360,698 |
| Leasing and other | **65,287** | 69,922 |
| Overdrafts | **6,589** | 13,753 |
| | **11,951,561** | 11,980,139 |
| Unearned income | **(8,177)** | (7,715) |
| | **$ 11,943,384** | $ 11,972,424 |

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

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| | (in thousands) | |
| Allowance for loan losses | **$ 272,042** | $ 256,698 |
| Reserve for unfunded lending commitments | **8,335** | 855 |
| Allowance for credit losses | **$ 280,377** | $ 257,553 |

The following table presents non-performing assets:

| | June 30, 2010 | December 31, 2009 |
|---|---|---|
| | (in thousands) | |
| Non-accrual loans | **$ 263,227** | $ 238,360 |
| Accruing loans greater than 90 days past due | **53,707** | 43,359 |
| Other real estate owned | **25,681** | 23,309 |
| | **$ 342,615** | $ 305,028 |

Excluded from non-accrual loans above were $57.7 million and $41.1 million of loans whose terms were modified under a troubled debt restructuring and were current under their modified terms at June 30, 2010 and December 31, 2009, respectively. As of June 30, 2010, such troubled debt restructurings included $32.0 million of residential mortgages, $14.9 million of commercial mortgages, $6.2 million of construction loans, $4.3 million of commercial loans and $266,000 of consumer loans. As of December 31, 2009, troubled debt restructurings included $24.6 million of residential mortgages and $16.5 million of commercial loans.

*Impaired Loans*

Impaired loans are loans for which the Corporation believes it is probable that all amounts will not be collected according to the contractual terms of the loan agreement.

The Corporation uses an internal risk rating process for its commercial loans, commercial mortgages and construction loans, consisting of nine general classifications ranging from excellent to loss . Risk ratings are initially assigned to loans by the loan officers and are reviewed on a regular basis by loan review staff in the normal course of their loan review procedures. Risk rating allows management to identify riskier credits in a timely manner and to allocate resources to managing troubled accounts.

Larger balance commercial loans, commercial mortgages and construction loans with risk ratings of  substandard  or lower are individually reviewed for impairment under Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Section 310-10-35. A loan with a  substandard  credit rating is inadequately protected by the current net worth and paying capacity of the borrower or by the collateral pledged, if any. In addition, there exists a well-defined weakness or weaknesses that jeopardize the normal repayment of the debt. Collection of principal may be collateral-intensive. Substandard credits are usually characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. As of June 30, 2010 and December 31, 2009, respectively, the estimated fair value of substantially all of the Corporation s impaired loans were measured based on the estimated fair value of the loan s collateral. Collateral could be in the form of real estate in the case of impaired residential mortgages, commercial mortgages and construction loans, or business assets, such as accounts receivable or inventory, in the case of commercial and industrial loans. Commercial and industrial loans may also be secured by real property.

For loans secured by real estate, estimated fair values are determined primarily through certified third-party appraisals. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including: the age of the most recent appraisal; the loan-to-value based on the original appraisal; the condition of the property; the Corporation s experience and knowledge of the market; the purpose of the loan; environmental factors; payment status; the strength of any guarantors; and the existence and age of other indications of value such as broker price opinions, among others. When the Corporation concludes that an updated appraisal is not necessary, estimated fair values for real estate collateral are based on one or more of the following: the original appraisal, a less formal broker price opinion, or a discounted cash flow analysis.

As of June 30, 2010 and December 31, 2009, respectively, approximately 25% and 40% of impaired loans secured by real estate with principal balances greater than $1 million were measured at estimated fair value using certified third-party appraisals that had been updated within 12 months. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For loans secured by non-real estate collateral, such as accounts receivable or inventory, estimated fair values are determined based on borrower financial statements, inventory listings, accounts receivable agings or borrowing base certificates. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets. Liquidation or collection discounts are applied to these assets based upon existing loan evaluation policies.

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The recorded investment in loans that were considered to be impaired, as defined by FASB ASC Section 310-10-35, and the related allowance for loan losses is summarized as follows:

| | June 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Recorded Investment | Related Allowance for Loan Loss | Recorded Investment | Related Allowance for Loan Loss |
| | (in thousands) | | | |
| Accruing loans | **$ 581,428** | **$ (85,757)** | $ 653,445 | $ (100,734) |
| Non-accrual loans | **243,043** | **(44,014)** | 116,425 | (26,247) |
| Total impaired loans | **$ 824,471** | **$ (129,771)** | $ 769,870 | $ (126,981) |

As of June 30, 2010 and December 31, 2009 there were $347.4 million and $295.6 million, respectively, of impaired loans that did not have a related allowance for loan loss. The estimated fair values of the collateral for these loans exceeded the carrying amount of the loans and, accordingly, no specific valuation allowance was considered to be necessary.

The average recorded investment in impaired performing loans during the three and six months ended June 30, 2010 was approximately $811.5 million and $797.6 million, respectively. The average recorded investment in impaired non-accrual loans during the three and six months ended June 30, 2010 was approximately $228.6 million and $191.2 million, respectively. For 2009, the average recorded investment in impaired performing loans and impaired non-accrual loans was approximately $492.6 million and $115.1 million, respectively.

The Corporation generally applies all payments received on non-accruing impaired loans to principal until such time as the principal is paid off, after which time any additional payments received are recognized as interest income. For the three and six months ended June 30, 2010, the Corporation recognized interest income of approximately $7.7 million and $15.9 million on impaired loans, respectively. For 2009, the Corporation recognized interest income of approximately $26.5 million on impaired loans.

## NOTE F Stock-Based Compensation

The fair value of equity awards granted 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 grants equity awards to employees, consisting of stock options and restricted stock, under its Stock Option and Compensation Plans (Option Plan). In addition, employees may purchase stock under the Corporation s 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:

| | Three months ended June 30 | | Six months ended June 30 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (in thousands) | | | |
| Stock-based compensation expense | **$ 318** | $ 447 | **$ 611** | $ 827 |
| Tax benefit | **(66)** | (37) | **(128)** | (75) |
| Stock-based compensation expense, net of tax | **$ 252** | $ 410 | **$ 483** | $ 752 |

Under the Option Plan, stock options and restricted stock are granted to key employees. Restricted stock fair values and stock option exercise prices are equal to the average trading price of the Corporation s stock on the date of grant. Stock options carry terms of up to ten years. Restricted stock awards earn dividends during the vesting period, which are forfeitable if the awards do not vest. Stock options and restricted stock are typically granted annually on July 1st and become fully vested over or after a three-year

vesting period. Certain events, as defined in the Option Plan, result in the acceleration of the vesting of both stock options and restricted stock. As of June 30, 2010, the Option Plan had 13.7 million shares reserved for future grants through 2013. On July 1, 2010, the Corporation granted approximately 578,000 stock options and 265,000 shares of restricted stock under its Option Plan.

In connection with the Corporation s participation in the UST s Capital Purchase Program (CPP) component of the Troubled Asset Relief Program, the 2009 and 2010 restricted stock granted to certain key employees is subject to the requirements and limitations contained in the Emergency Economic Stabilization Act of 2008, as amended, and related regulations. Among other things, restricted stock grants to these key employees may not fully vest until the longer of: two years after the date of grant, or the Corporation s participation in the CPP ends. None of the key employees who received 2009 and 2010 restricted stock grants subject to the CPP vesting restrictions received 2009 or 2010 stock option awards.

**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, if required. 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. In 2007, the Corporation curtailed the Pension Plan, discontinuing the accrual of benefits for all existing participants effective January 1, 2008.

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.

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.

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 six months ended June 30:

| | Pension Plan | | | |
|---|---|---|---|---|
| | Three months ended June 30 | | Six months ended June 30 | |
| | **2010** | 2009 | **2010** | 2009 |
| | (in thousands) | | | |
| Service cost (1) | **$ 26** | $ 37 | **$ 52** | $ 74 |
| Interest cost | **842** | 818 | **1,684** | 1,637 |
| Expected return on plan assets | **(802)** | (722) | **(1,604)** | (1,444) |
| Net amortization and deferral | **119** | 262 | **238** | 524 |
| Net periodic benefit cost | **$ 185** | $ 395 | **$ 370** | $ 791 |

(1) The Pension Plan service cost recorded for the three and six months ended June 30, 2010 and 2009, respectively, was related to administrative costs associated with the plan and not due to the accrual of additional participant benefits.

| | Postretirement Plan | | | |
|---|---|---|---|---|
| | Three months ended June 30 | | Six months ended June 30 | |
| | 2010 | 2009 | 2010 | 2009 |
| | (in thousands) | | | |
| Service cost | **$ 48** | $ 75 | **$ 98** | $ 181 |
| Interest cost | **110** | 151 | **220** | 317 |
| Expected return on plan assets | **(1)** | (1) | **(2)** | (2) |
| Net accretion and deferral | **(91)** | (81) | **(182)** | (81) |
| Net periodic benefit cost | **$ 66** | $ 144 | **$ 134** | $ 415 |

**NOTE H Derivative Financial Instruments**

In connection with its mortgage banking activities, the Corporation enters into commitments to originate fixed-rate residential mortgage loans for customers, also referred to as interest rate locks. In addition, the Corporation enters into forward commitments for the future sale or purchase of mortgage-backed securities to or from third-party investors to hedge the effect of changes in interest rates on the values of the interest rate locks. Forward sales commitments may also be in the form of commitments to sell individual mortgage loans at a fixed price on a future date. Both the interest rate locks and the forward commitments are accounted for as derivatives and carried at fair value, determined as the amount that would be necessary to settle each derivative financial instrument at the end of the period. Gross derivative assets and liabilities are recorded within other assets and other liabilities on the consolidated balance sheets, with changes in fair value during the period recorded within gains on sales of mortgage loans on the consolidated statements of income.

The following table presents a summary of the notional amounts and fair values of derivative financial instruments recorded on the consolidated balance sheets, none of which have been designated as hedging instruments:

| | June 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Notional Amount | Asset (Liability) Fair Value | Notional Amount | Asset (Liability) Fair Value |
| | (in thousands) | | | |
| Interest Rate Locks with Customers: | | | | |
| Positive fair values | **$ 187,963** | **$ 2,227** | $ 58,165 | $ 534 |
| Negative fair values | **38,262** | **(117)** | 106,921 | (945) |
| Net Interest Rate Locks with Customers | | **2,110** | | (411) |
| Forward Commitments: | | | | |
| Positive fair values | **98,110** | **290** | 232,310 | 1,819 |
| Negative fair values | **280,014** | **(5,182)** | 59,432 | (535) |
| Net Forward Commitments | | **(4,892)** | | 1,284 |
| | | **$ (2,782)** | | $ 873 |

The following table presents a summary of the fair value gains and losses on derivative financial instruments for the three and six months ended June 30:

| | Three months ended June 30 | | Six months ended June 30, | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| | (in thousands) | | | |
| Interest rate locks with customers (1) | **$ 1,499** | $ (4,674) | **$ 2,521** | $ (711) |
| Forward commitments (1) | **(4,878)** | 4,591 | **(6,176)** | 2,463 |

| | | | | |
|---|---|---|---|---|
| Interest rate swaps | **0** | 0 | **0** | (18) |
| | **$ (3,379)** | $ (83) | **$ (3,655)** | $ 1,734 |

(1) Fair value gains and losses recorded as components of gains on sales of mortgage loans on the consolidated statements of income.

### 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:

| | **June 30, 2010** | **December 31, 2009** |
|---|---|---|
| | **(in thousands)** | |
| Commitments to extend credit | **$ 3,880,690** | $ 4,479,546 |
| Standby letters of credit | **516,069** | 551,064 |
| Commercial letters of credit | **36,144** | 37,662 |

The Corporation records a reserve for unfunded lending commitments, which represents management s estimate of losses associated with unused commitments to extend credit on loans impaired under FASB ASC Section 310-10-35. See Note E, Loans and Allowance for Credit Losses for additional details.

*Residential Lending*

Residential mortgages are originated and sold by the Corporation through Fulton Mortgage Company, which operates as a division of each of the Corporation s subsidiary banks. The loans originated and sold are predominantly prime loans that conform to published standards of government sponsored agencies. Prior to 2008, the Corporation s former Resource Bank subsidiary operated a national wholesale mortgage lending operation which originated and sold significant volumes of non-prime loans from the time the Corporation acquired Resource Bank in 2004 through 2007.

Beginning in 2007, Resource Bank experienced an increase in requests from secondary market purchasers to repurchase non-prime loans sold to those investors. These repurchase requests resulted in the Corporation recording charges representing the write-downs that were necessary to reduce the loan balances to their estimated net realizable values, based on valuations of the underlying properties, as adjusted for market factors and other considerations. Many of the loans the Corporation repurchased were delinquent and were settled through foreclosure and sale of the underlying collateral.

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

| | June 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Principal | Reserves/<br>Write-downs | Principal | Reserves/<br>Write-downs |
| | (in thousands) | | | |
| Outstanding repurchase requests (1) (2) | **$ 5,730** | **$ (2,970)** | $ 6,130 | $ (3,750) |
| No repurchase request received sold loans with identified potential misrepresentations of borrower information (1) (2) | **3,260** | **(820)** | 3,650 | (1,260) |
| Repurchased loans (3) | **4,300** | **(440)** | 5,580 | (870) |
| Foreclosed real estate (OREO) (4) | **5,770** | **0** | 9,140 | 0 |
| Total reserves/write-downs | | **$ (4,230)** | | $ (5,880) |

(1) Principal balances had not been repurchased and, therefore, are not included on the consolidated balance sheets as of June 30, 2010 and December 31, 2009.

(2) Reserve balance included as a component of other liabilities on the consolidated balance sheets as of June 30, 2010 and December 31, 2009.

(3) Principal balances, net of write-downs, are included as a component of loans, net of unearned income on the consolidated balance sheets as of June 30, 2010 and December 31, 2009.

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

Management believes that the reserves recorded as of June 30, 2010 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.

**NOTE J Fair Value Option**

FASB ASC Subtopic 825-10 permits entities to measure many financial instruments and certain other items at fair value and requires certain disclosures for amounts for which the fair value option is applied.

The Corporation elected to measure mortgage loans held for sale at fair value to more accurately reflect the financial performance of its mortgage banking activities in its consolidated financial statements. Derivative financial instruments related to these activities are also recorded at fair value, as noted within Note H, Derivative Financial Instruments . The Corporation determines fair value for its mortgage loans held for sale based on the price that secondary market investors would pay for loans with similar characteristics, including interest rate and term, as of the date fair value is measured. Changes in fair value during the period are recorded as components of gains on sales of mortgage loans on the consolidated statements of income. Interest income earned on mortgage loans held for sale is recorded within interest income on the consolidated statements of income.

The following table presents a summary of the Corporation s fair value elections for mortgage loans held for sale:

| | June 30,<br>2010 | December<br>31,<br>2009 |
|---|---|---|
| | (in thousands) | |
| Cost (1) | **$ 90,361** | $ 78,819 |
| Fair value | **93,504** | 79,577 |
| Fair value adjustment | **$ 3,143** | $ 758 |

(1) Cost basis of mortgage loans held for sale represents the unpaid principal balance.

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**NOTE K Fair Value Measurements**

*FASB ASC Topic 820 Fair Value Measurements*

FASB ASC Topic 820 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.

The Corporation has categorized all assets and liabilities measured at fair value on both a recurring and nonrecurring basis into the above three levels.

In January 2010, the FASB issued ASC Update No. 2010-06, Improving Disclosures About Fair Value Measurements (ASC Update 2010-06). ASC Update 2010-06 requires companies to disclose, and provide the reasons for, all transfers of assets and liabilities between the Level 1 and 2 fair value categories. ASC Update 2010-06 also clarifies that companies should disclose fair value measurement disclosures for classes of assets and liabilities which are subsets of line items within the balance sheet, if necessary. In addition, ASC Update 2010-06 provides additional clarification related to disclosures about the fair value techniques and inputs for assets and liabilities classified within Level 2 or 3 categories. The disclosure requirements prescribed by ASC Update No. 2010-06 were effective for the Corporation on March 31, 2010. The Corporation did not record any transfers of assets or liabilities between the Level 1 and Level 2 fair value categories during the three or six months ended June 30, 2010.

ASC Update 2010-06 also requires companies to reconcile changes in Level 3 assets and liabilities by separately providing information about Level 3 purchases, sales, issuances and settlements on a gross basis. This provision of ASC Update 2010-06 is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years, or March 31, 2011 for the Corporation. The adoption of this provision of ASC Update 2010-06 is not expected to materially impact the Corporation s fair value measurement disclosures.

*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 sheets were as follows:

| | | June 30, 2010 | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | | (in thousands) | | |
| Mortgage loans held for sale | **$ 0** | **$ 93,504** | **$ 0** | **$ 93,504** |
| Available for sale investment securities: | | | | |
| Equity securities | **39,659** | **0** | **0** | **39,659** |
| U.S. Government securities | **0** | **1,324** | **0** | **1,324** |
| U.S. Government sponsored agency securities | **0** | **12,302** | **0** | **12,302** |
| State and municipal securities | **0** | **359,821** | **0** | **359,821** |
| Corporate debt securities | **0** | **110,880** | **12,364** | **123,244** |
| Collateralized mortgage obligations | **0** | **1,038,725** | **0** | **1,038,725** |
| Mortgage-backed securities | **0** | **932,939** | **0** | **932,939** |
| Auction rate securities | **0** | **0** | **276,539** | **276,539** |
| Total available for sale investments | **39,659** | **2,455,991** | **288,903** | **2,784,553** |
| Other financial assets | **13,386** | **2,517** | **0** | **15,903** |
| Total assets | **$ 53,045** | **$ 2,552,012** | **$ 288,903** | **$ 2,893,960** |
| Other financial liabilities | **$ 13,386** | **$ 5,299** | **$ 0** | **$ 18,685** |

| | | December 31, 2009 | | |
|---|---|---|---|---|
| Mortgage loans held for sale | $ 0 | $ 79,577 | $ 0 | $ 79,577 |
| Available for sale investment securities: | | | | |
| Equity securities | 41,256 | 0 | 0 | 41,256 |
| U.S. Government securities | 0 | 1,325 | 0 | 1,325 |
| U.S. Government sponsored agency securities | 0 | 91,956 | 0 | 91,956 |
| State and municipal securities | 0 | 415,773 | 0 | 415,773 |
| Corporate debt securities | 0 | 104,779 | 11,960 | 116,739 |
| Collateralized mortgage obligations | 0 | 1,122,996 | 0 | 1,122,996 |
| Mortgage-backed securities | 0 | 1,080,024 | 0 | 1,080,024 |
| Auction rate securities | 0 | 0 | 289,203 | 289,203 |
| Total available for sale investments | 41,256 | 2,816,853 | 301,163 | 3,159,272 |
| Other financial assets | 13,882 | 2,353 | 0 | 16,235 |
| Total assets | $ 55,138 | $ 2,898,783 | $ 301,163 | $ 3,255,084 |
| Other financial liabilities | $ 13,882 | $ 1,480 | $ 0 | $ 15,362 |

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

Mortgage loans held for sale This category consists of mortgage loans held for sale that the Corporation has elected to measure at fair value. Fair values as of June 30, 2010 and December 31, 2009 were measured as the price that secondary market investors were offering for loans with similar characteristics.

Available for sale investment securities   Included within this asset category are both equity and debt securities:

Equity securities   Equity securities consist of stocks of financial institutions ($31.1 million at June 30, 2010 and $32.3 million at December 31, 2009) and mutual fund and other equity investments ($8.5 million at June 30, 2010 and $9.0 million at December 31, 2009). These Level 1 investments are measured at fair value based on quoted prices for identical securities in active markets. Restricted equity securities issued by the Federal Home Loan Bank (FHLB) and Federal Reserve Bank ($100.3 million at June 30, 2010 and $99.1 million at December 31, 2009) have been excluded from the above table.

U.S. Government securities/U.S. Government sponsored agency securities/State and municipal securities/Collateralized mortgage obligations/Mortgage-backed securities   These debt securities are classified as Level 2 investments. 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. The pricing data and market quotes the Corporation obtains from outside sources are reviewed internally for reasonableness.

Corporate debt securities   This category consists of subordinated debt issued by financial institutions ($34.8 million at June 30, 2010 and $32.7 million at December 31, 2009), single-issuer trust preferred securities issued by financial institutions ($81.0 million at June 30, 2010 and $75.8 million at December 31, 2009), pooled trust preferred securities issued by financial institutions ($4.3 million at June 30, 2010 and $5.0 million at December 31, 2009) and other corporate debt issued by non-financial institutions ($3.1 million at June 30, 2010 and $3.2 million at December 31, 2009).

Classified as Level 2 investments are the subordinated debt, other corporate debt issued by non-financial institutions and $72.9 million and $68.8 million of single-issuer trust preferred securities held at June 30, 2010 and December 31, 2009, respectively. These corporate debt securities are measured at fair value 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. As with the debt securities described above, an active market presently exists for securities similar to these corporate debt security holdings.

Classified as Level 3 assets are the Corporation s investments in pooled trust preferred securities and certain single-issuer trust preferred securities ($8.1 million at June 30, 2010 and $7.0 million at December 31, 2009). The fair values of these securities were determined based on quotes provided by third-party brokers who determined fair values based predominantly on internal valuation models which were not indicative prices or binding offers. The Corporation s third-party pricing service cannot derive fair values for these securities primarily due to inactive market transactions for similar investments.

Auction rate securities   Due to their illiquidity, ARCs are classified as Level 3 investments and are valued through the use of an expected cash flows model prepared by a third-party valuation expert. The assumptions used in preparing the expected cash flows model include estimates for coupon rates, time to maturity and market rates of return. The expected cash flows model the Corporation obtains from outside sources is reviewed internally for reasonableness.

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; and Level 2 assets representing the fair value of mortgage banking derivatives in the form of interest rate locks and forward commitments with secondary market investors. The fair value of the Corporation s interest rate locks and forward commitments are determined as the amount that would be required to settle each derivative financial instrument at the balance sheet date. See Note H, Derivative Financial Instruments, for additional information.

Other financial liabilities   Included within this category are: Level 1 employee deferred compensation liabilities which represent amounts due to employees under the deferred compensation plans described under the heading Other financial assets above and Level 2 mortgage banking derivatives, described under the heading Other financial assets above.

The following tables present the changes in the Corporation s assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) for the three and six months ended June 30, 2010 and 2009:

| | Three months ended June 30, 2010 | | | |
|---|---|---|---|---|
| | Available for Sale Investment Securities | | | Other Financial Liabilities |
| | Pooled Trust Preferred Securities | Single-issuer Trust Preferred Securities | ARC Investments | ARC Financial Guarantee (1) |
| | | (in thousands) | | |
| Balance, March 31, 2010 | **$ 4,900** | **$ 7,136** | **$ 288,133** | **$ 0** |
| Realized adjustment to fair value (2) | **(2,989)** | **0** | **0** | **0** |
| Unrealized adjustment to fair value (3) | **2,374** | **299** | **(2,376)** | **0** |
| Sales | **0** | **0** | **(5,033)** | **0** |
| Redemptions | **0** | **0** | **(5,281)** | **0** |
| Transfers to Level 3 from Level 2 | **0** | **650** | **0** | **0** |
| (Premium amortization)/Discount accretion (4) | **(6)** | **0** | **1,096** | **0** |
| Balance, June 30, 2010 | **$ 4,279** | **$ 8,085** | **$ 276,539** | **$ 0** |

| | Three months ended June 30, 2009 | | | |
|---|---|---|---|---|
| Balance, March 31, 2009 | $ 10,692 | $ 6,294 | $ 203,578 | $ (13,934) |
| Purchases (1) | 0 | 0 | 79,741 | 14,013 |
| Realized adjustment to fair value (2) | (2,651) | 0 | 0 | (79) |
| Unrealized adjustment to fair value (3) | (3,129) | 712 | 5,812 | 0 |
| Redemptions | 0 | 0 | (628) | 0 |
| Discount accretion (4) | 3 | 0 | 1,072 | 0 |
| Balance, June 30, 2009 | $ 4,915 | $ 7,006 | $ 289,575 | $ 0 |

| | Six months ended June 30, 2010 | | | |
|---|---|---|---|---|
| | Available for Sale Investment Securities | | | Other |
| | Pooled Trust Preferred Securities | Single-issuer Trust Preferred Securities | ARC Investments | Financial Liabilities ARC Financial Guarantee (1) |
| | | | (in thousands) | |
| Balance, December 31, 2009 | $ 4,979 | $ 6,981 | $ 289,203 | $ 0 |
| Realized adjustment to fair value (2) | (7,142) | 0 | 0 | 0 |
| Unrealized adjustment to fair value (3) | 6,453 | 453 | (3,642) | 0 |
| Sales | 0 | 0 | (5,033) | 0 |
| Redemptions | 0 | 0 | (6,382) | 0 |
| Transfers to Level 3 from Level 2 | 0 | 650 | 0 | 0 |
| (Premium amortization)/Discount accretion (4) | (11) | 1 | 2,393 | 0 |
| Balance, June 30, 2010 | $ 4,279 | $ 8,085 | $ 276,539 | $ 0 |
| | Six months ended June 30, 2009 | | | |
| Balance, December 31, 2008 | $ 15,381 | $ 7,544 | $ 195,900 | $ (8,653) |
| Purchases (1) | 0 | 0 | 89,383 | 14,890 |
| Realized adjustment to fair value (2) | (4,629) | 0 | 0 | (6,237) |
| Unrealized adjustment to fair value (3) | (5,840) | (540) | 3,147 | 0 |
| Redemptions | 0 | 0 | (717) | 0 |
| Discount accretion (4) | 3 | 2 | 1,862 | 0 |
| Balance, June 30, 2009 | $ 4,915 | $ 7,006 | $ 289,575 | $ 0 |

(1) In 2008, the Corporation offered to purchase illiquid ARCs from customers. The estimated fair value of the guarantee was determined based on the difference between the fair value of the underlying ARCs and their estimated purchase price. During 2009, the Corporation completed the repurchase of all eligible ARCs and, as of December 31, 2009, there were no longer any ARCs still held by customers that the Corporation had agreed to purchase.

(2) For pooled trust preferred securities, realized adjustments to fair value represent credit related other-than-temporary impairment charges that were recorded as a reduction to investment securities gains on the consolidated statements of income.

(3) Pooled trust preferred securities, single-issuer trust preferred securities, and ARCs are classified as available for sale investment securities; as such, the unrealized adjustment to fair value was recorded as an unrealized holding gain (loss) and included as a component of available for sale investment securities on the consolidated balance sheet.

(4) Included as a component of net interest income on the consolidated statements of income.

*Items Measured at Fair Value on a Nonrecurring Basis*

Certain financial assets and liabilities 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 assets measured at fair value on a nonrecurring basis and reported on the Corporation s consolidated balance sheets were as follows:

| | June 30, 2010 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | | | (in thousands) | |
| Net loans | $ 0 | $ 344 | $ 694,700 | $ 695,044 |

| | | | | |
|---|---|---|---|---|
| Other financial assets | **0** | **0** | **50,007** | **50,007** |
| Total assets | **$ 0** | **$ 344** | **$ 744,707** | **$ 745,051** |
| Reserve for unfunded commitments | **$ 0** | **$ 0** | **$ 8,335** | **$ 8,335** |

| | December 31, 2009 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | (in thousands) | | | |
| Loans held for sale | $ 0 | $ 5,807 | $ 0 | $ 5,807 |
| Net loans | 0 | 0 | 642,889 | 642,889 |
| Other financial assets | 0 | 0 | 45,807 | 45,807 |
| Total assets | $ 0 | $ 5,807 | $ 688,696 | $ 694,503 |
| Reserve for unfunded commitments | $ 0 | $ 0 | $ 855 | $ 855 |

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

Loans held for sale    This category consists of floating rate residential mortgage construction loans which are measured at the lower of aggregate cost or fair value. Fair value was measured as the prices 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 half of 2010 and have been classified as Level 2 assets. Upon repurchase, these loans were written down to the appraised value of their underlying collateral, less estimated selling costs. See Note I,    Commitments and Contingencies    for additional information.

This category also consists of loans that were considered to be impaired under FASB ASC Section 310-10-35 and have been classified as Level 3 assets. Impaired loans are generally measured at fair value of their underlying collateral. 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 the related allowance for loan losses. See Note E,    Loans and Allowance for Credit Losses    for additional details.

Other financial assets    This category includes other real estate owned (OREO) ($25.7 million at June 30, 2010 and $23.3 million at December 31, 2009) and mortgage servicing rights (MSRs) ($24.3 million at June 30, 2010 and $22.5 million at December 31, 2009), both classified as Level 3 assets.

Fair values for OREO were based on estimated selling prices less estimated selling costs for similar assets in active markets.

MSRs are initially recorded at fair value upon the sale of residential mortgage loans, which the Corporation continues to service, to secondary market investors. MSRs are amortized as a reduction to servicing income over the estimated lives of the underlying loans. MSRs are evaluated quarterly for impairment, by comparing the carrying amount to estimated fair value. Fair value is determined at the end of each quarter through a discounted cash flows valuation. Significant inputs to the valuation include expected net servicing income, the discount rate and the expected life of the underlying loans.

Reserve for unfunded commitments    This liability represents the reserve associated with unused commitments to extend credit on loans which are impaired under FASB ASC Section 310-10-35, and included as Level 3 assets under the heading,    Net loans    above. The fair value of the reserve for unfunded commitments is determined based on the results of the measurement of impaired loans. As such, this liability is classified as a Level 3 item. See Note E,    Loans and Allowance for Credit Losses    for additional details.

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*FASB ASC Section 825-10-50 Fair Values of Financial Instruments*

The following table details the book values and estimated fair values of the Corporation s financial instruments as of June 30, 2010 and December 31, 2009. A general description of the methods and assumptions used to estimate such fair values is also provided.

Fair values of financial instruments are significantly affected by assumptions used, principally the timing of future cash flows and discount rates. Because assumptions are inherently subjective in nature, the estimated fair values cannot be substantiated by comparison to independent market quotes and, in many cases, the estimated fair values could not necessarily be realized in an immediate sale or settlement of the instrument. Further, certain financial instruments and all non-financial instruments not measured at fair value on the Corporation s consolidated balance sheets are excluded. For financial instruments listed below which are not measured at fair value on the Corporation s consolidated balance sheets, the aggregate fair value amounts presented do not necessarily represent management s estimate of the underlying value of the Corporation.

| | June 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | Book Value | Estimated Fair Value | Book Value | Estimated Fair Value |
| | (in thousands) | | | |
| **FINANCIAL ASSETS** | | | | |
| Cash and due from banks | **$ 268,371** | **$ 268,371** | $ 284,508 | $ 284,508 |
| Interest-bearing deposits with other banks | **433,687** | **433,687** | 16,591 | 16,791 |
| Loans held for sale (1) | **93,504** | **93,504** | 85,384 | 85,384 |
| Securities held to maturity | **8,054** | **8,154** | 8,700 | 8,797 |
| Securities available for sale (1) | **2,884,836** | **2,884,836** | 3,258,386 | 3,258,386 |
| Loans, net of unearned income (1) | **11,943,384** | **11,946,332** | 11,972,424 | 11,972,109 |
| Accrued interest receivable | **54,763** | **54,763** | 58,515 | 58,515 |
| Other financial assets (1) | **130,569** | **130,569** | 128,374 | 128,374 |
| **FINANCIAL LIABILITIES** | | | | |
| Demand and savings deposits | **$ 7,307,678** | **$ 7,307,678** | $ 6,784,050 | $ 6,784,050 |
| Time deposits (1) | **5,037,794** | **5,083,856** | 5,313,864 | 5,349,237 |
| Short-term borrowings | **458,334** | **458,334** | 868,940 | 868,940 |
| Accrued interest payable | **43,292** | **43,292** | 46,596 | 46,596 |
| Other financial liabilities (1) | **62,853** | **62,853** | 53,267 | 53,267 |
| Federal Home Loan Bank advances and long-term debt | **1,365,688** | **1,341,623** | 1,540,773 | 1,474,082 |

(1) Description of fair value determinations for these financial instruments, or certain financial instruments within these categories, measured at fair value on the Corporation s consolidated balance sheets, are detailed under the heading, FASB ASC Topic 820 Fair Value Measurements above.

For short-term financial instruments, defined as those with remaining maturities of 90 days or less and excluding those recorded at fair value and reported above under the heading, FASB ASC Topic 820 Fair Value Measurements, the carrying amount was considered to be a reasonable estimate of fair value. The following instruments are predominantly short-term:

| Assets | Liabilities |
|---|---|
| Cash and due from banks | Demand and savings deposits |
| Interest bearing deposits | Short-term borrowings |
| Federal funds sold | Accrued interest payable |
| Accrued interest receivable | Other financial liabilities |

For those components of the above-listed financial instruments with remaining maturities greater than 90 days, fair values were determined by discounting contractual cash flows using rates which could be earned for assets with similar remaining maturities and, in the case of liabilities, rates at which the liabilities with similar remaining maturities could be issued as of the balance sheet date.

The estimated fair values of securities held to maturity as of June 30, 2010 and December 31, 2009 were based on quoted market prices, broker quotes or dealer quotes.

For short-term loans and variable rate loans that reprice within 90 days, the carrying value was considered to be a reasonable estimate of fair value. For other types of loans and time deposits, fair value was estimated by discounting future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

The fair value of FHLB advances and long-term debt was estimated by discounting the remaining contractual cash flows using a rate at which the Corporation could issue debt with a similar remaining maturity as of the balance sheet date. The fair values of commitments to extend credit and standby letters of credit, included within other financial liabilities above, are estimated to equal their carrying amounts.

**NOTE L New Accounting Standard**

In July 2010, the FASB issued ASC Update No. 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASC Update 2010-20). The goal of ASC Update 2010-20 is to improve transparency in financial reporting by companies that hold financing receivables, which include loans, lease receivables, and other long-term receivables. ASC Update 2010-20 requires companies to provide more information in their disclosures about the credit quality of their financing receivables and the credit reserves held against them. The Corporation s new and existing disclosures related to the credit quality of loans will be disaggregated based on how it develops its allowance for credit losses and how it measures credit exposures.

For publicly traded companies, the expanded disclosure requirements of ASC Update 2010-20 that relate to end of reporting period information are effective for periods ending on or after December 15, 2010, or December 31, 2010 for the Corporation. The expanded disclosure requirements that relate to credit quality activity during a reporting period are effective for periods beginning on or after December 15, 2010, or January 1, 2011 for the Corporation. The adoption of ASC Update 2010-20 will impact the Corporation s disclosures related to its allowance for credit losses; however, this update will not impact how the Corporation measures its allowance for credit losses.

**NOTE M Subsequent Event**

On July 14, 2010, the Corporation redeemed all 376,500 outstanding shares of its Series A Preferred Stock that it issued to the UST as part of the Troubled Asset Relief Program in December 2008. The Corporation paid $379.6 million to the UST, consisting of $376.5 million of principal and $3.1 million of dividends.

The preferred stock had a carrying value of $371.0 million at June 30, 2010, as a result of allocating the proceeds received upon issuance to the preferred stock and common stock warrants, also issued to the UST, based on their relative fair value. Upon redemption, the $5.5 million preferred stock discount will be recorded as a reduction to third quarter net income available to common shareholders.

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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) relates to Fulton Financial Corporation (the Corporation), a financial holding company registered under the Bank Holding Company Act and incorporated under the laws of the Commonwealth of Pennsylvania in 1982, and its wholly owned subsidiaries. Management s discussion 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 financial conditions and results of operations. Many factors could affect future financial results, including without limitation: asset quality and the impact of adverse changes in the economy and in credit or other markets and resulting effects on credit risk and asset values; 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; changes in the levels of Federal Deposit Insurance Corporation deposit insurance premiums and assessments; the effect of competition and interest rates on net interest margin and net interest income; investment strategy and income growth; investment securities gains and losses; declines in the value of securities which may result in charges to earnings; changes in rates of deposit and loan growth or a decline in loans originated; 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. Do not unduly rely on forward-looking statements. Forward-looking statements can be identified by the use of words such as may, should, will, could, estimates, predicts, potential, continue, anticipates, believes, future and intends and similar expressions which are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond the Corporation s control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. The Corporation undertakes no obligation, other than as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### RESULTS OF OPERATIONS

#### *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, or FTE) 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.

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

| | As of or for the<br>Three months ended<br>June 30 | | As of or for the<br>Six months ended<br>June 30 | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Net income available to common shareholders (in thousands) | **$ 26,616** | $ 8,065 | **$ 49,031** | $ 16,119 |
| Income before income taxes (in thousands) | **$ 42,965** | $ 15,515 | **$ 79,712** | $ 30,173 |
| Diluted net income per share (1) | **$ 0.14** | $ 0.05 | **$ 0.27** | $ 0.09 |
| Return on average assets | **0.77%** | 0.32% | **0.72%** | 0.32% |
| Return on average common equity (2) | **6.06%** | 2.16% | **5.90%** | 2.17% |
| Return on average tangible common equity (3) | **9.10%** | 3.83% | **9.11%** | 3.85% |
| Net interest margin (4) | **3.76%** | 3.43% | **3.77%** | 3.44% |
| Non-performing assets to total assets | **2.06%** | 1.73% | **2.06%** | 1.73% |
| Net charge-offs to average loans (annualized) | **0.97%** | 0.97% | **0.96%** | 0.99% |

(1) Net income available to common shareholders divided by diluted weighted average common shares outstanding.

(2) Net income available to common shareholders divided by average common shareholders equity.

(3) Net income available to common shareholders, adjusted for intangible asset amortization (net of tax), divided by average common shareholders equity, excluding goodwill and intangible assets.

(4) Presented on a FTE basis, using a 35% Federal tax rate and statutory interest expense disallowances. See also the Net Interest Income section of Management s Discussion.

The Corporation s income before income taxes for the second quarter of 2010 increased $27.5 million, or 176.9%, from the same period in 2009. Income before income taxes for the first half of 2010 increased $49.5 million, or 164.2%, in comparison to the first half of 2009. The increase was primarily due to the following significant items:

Increases in income before income taxes:

*Increases in net interest income of $11.2 million and $25.6 million, for the three and six months ended June 30, 2010, respectively.* The increases in net interest income were a result of increases in the net interest margin. For the second quarter of 2010, the net interest margin increased 33 basis points, or 9.6%, in comparison to the second quarter of 2009. For the first half of 2010, net interest margin increased 33 basis points, or 9.6%. During 2010, significant declines in funding costs resulted in an improvement in net interest margin.

*Decreases in the provision for loan losses of $10.0 million and $20.0 million for the three and six months ended June 30, 2010, respectively.* During the second quarter and first half of 2010, allowance allocation needs for impaired loans slowed in comparison to the same periods in 2009, resulting in a decrease in the provision for loan losses.

*Decreases in Federal Deposit Insurance Corporation (FDIC) insurance expense of $7.1 million and $6.4 million for the three and six months ended June 30, 2010, respectively.* During the second quarter of 2009, the Corporation paid a $7.7 million special FDIC assessment. Partially offsetting the impact of the special assessment was an increase in assessment rates and an increase in the balance of insured deposits in 2010.

*A $6.2 million decrease in losses associated with the Corporation s guarantee to purchase illiquid student loan auction rate securities, also known as auction rate certificates (ARCs), for the first half of 2010 in comparison to the first half of 2009.* 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 the first quarter of 2009, the Corporation recorded a pre-tax charge, as a component of operating risk loss on the consolidated statements of income, of $6.2 million, which represented contingent losses related to guarantees to purchase ARCs held by customers. As of December 31, 2009, the Corporation had purchased all remaining ARCs held by customers.

Decrease in income before income taxes:

*Decreases of $4.3 million and $9.6 million in gains on sales of mortgage loans for the three and six months ended June 30, 2010, respectively.* During 2009, low interest rates on residential mortgages resulted in a significant level of residential mortgage refinances and gains on sales of these loans. The decrease in gains on sales of mortgage loans in 2010 was a result of lower refinance volumes.

Common Stock Issuance and Redemption of Preferred Stock Outstanding

In May 2010, the Corporation issued 21.8 million shares of its common stock for total proceeds of $226.3 million in anticipation of redeeming its outstanding preferred stock issued to the U.S. Department of the Treasury (UST). The proceeds from the common stock issuance were held in other interest-earning assets from the date of issuance through the end of the second quarter, as approval to redeem the preferred stock was not obtained until July 14, 2010. Had the preferred stock been redeemed concurrently with the common stock issuance, the net interest margin for the second quarter of 2010 would have been 3.82%, or 1.6% higher. In addition, preferred stock dividends for the second quarter of 2010 would have been reduced by approximately $3.1 million, or 1.6 cents per diluted share.

On July 14, 2010, upon receiving formal authorization, the Corporation redeemed its 376,500 shares of its Series A preferred stock with a total payment to the UST of $379.6 million, consisting of $376.5 million par value and $3.1 million of dividends. The preferred stock had a carrying value of $371.0 million at June 30, 2010, as a result of allocating the proceeds received upon issuance to the preferred stock and common stock warrants, also issued to the UST, based on their relative fair value. Upon redemption, the $5.5 million preferred stock discount was recorded as a reduction to third quarter net income available to common shareholders.

Subsequent to the redemption of the Corporation s outstanding preferred shares, the UST still holds warrants to purchase up to 5.5 million shares of the Corporation s common stock. The Corporation intends to repurchase the 5.5 million outstanding common stock warrants at a price to be negotiated. As of June 30, 2010, the common stock warrants have a carrying value of $7.6 million, recorded as a component of shareholders equity. If the common stock warrants are redeemed at a price in excess of their carrying value, the excess will be recorded as a reduction to shareholders equity and not as a reduction to net income available to common shareholders.

Quarter Ended June 30, 2010 compared to the Quarter Ended June 30, 2009

Net Interest Income

FTE net interest income increased $11.3 million, or 8.6%, from $131.8 million in the second quarter of 2009 to $143.0 million in the second quarter of 2010. This was the net result of a $10.4 million decrease in FTE interest income and a $21.6 million decrease in interest expense.

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The following table provides a comparative average balance sheet and net interest income analysis for the second quarter of 2010 as compared to the same period in 2009. 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 June 30 | | | |
|---|---|---|---|---|---|---|
| | | 2010 | | | 2009 | |
| | Average Balance | Interest (1) | Yield/ Rate | Average Balance | Interest (1) | Yield/ Rate |
| **ASSETS** | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans, net of unearned income (2) | **$ 11,959,176** | **$ 159,632** | **5.35%** | $ 11,960,669 | $ 163,744 | 5.49% |
| Taxable investment securities (3) | **2,386,695** | **25,146** | **4.22** | 2,673,136 | 29,422 | 4.40 |
| Tax-exempt investment securities (3) | **355,186** | **5,152** | **5.80** | 462,991 | 6,425 | 5.55 |
| Equity securities (3) | **140,271** | **733** | **2.09** | 134,702 | 660 | 1.96 |
| Total investment securities | **2,882,152** | **31,031** | **4.31** | 3,270,829 | 36,507 | 4.47 |
| Loans held for sale | **59,412** | **667** | **4.49** | 139,354 | 1,628 | 4.67 |
| Other interest-earning assets | **366,200** | **231** | **0.25** | 20,897 | 40 | 0.76 |
| Total interest-earning assets | **15,266,940** | **191,561** | **5.03%** | 15,391,749 | 201,919 | 5.26% |
| Noninterest-earning assets: | | | | | | |
| Cash and due from banks | **261,576** | | | 283,399 | | |
| Premises and equipment | **203,928** | | | 204,451 | | |
| Other assets | **1,102,587** | | | 938,156 | | |
| Less: Allowance for loan losses | **(275,209)** | | | (211,166) | | |
| *Total Assets* | **$ 16,559,822** | | | $ 16,606,589 | | |
| **LIABILITIES AND EQUITY** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Demand deposits | **$ 2,019,605** | **$ 1,840** | **0.37%** | $ 1,818,897 | $ 2,002 | 0.44% |
| Savings deposits | **3,090,857** | **5,388** | **0.70** | 2,307,089 | 4,401 | 0.76 |
| Time deposits | **5,120,648** | **24,591** | **1.93** | 5,625,841 | 41,604 | 2.97 |
| Total interest-bearing deposits | **10,231,110** | **31,819** | **1.25** | 9,751,827 | 48,007 | 1.97 |
| Short-term borrowings | **512,583** | **390** | **0.30** | 1,186,541 | 921 | 0.31 |
| FHLB advances and long-term debt | **1,403,410** | **16,313** | **4.66** | 1,780,120 | 21,225 | 4.78 |
| Total interest-bearing liabilities | **12,147,103** | **48,522** | **1.60%** | 12,718,488 | 70,153 | 2.21% |
| Noninterest-bearing liabilities: | | | | | | |
| Demand deposits | **2,079,674** | | | 1,812,539 | | |
| Other | **199,778** | | | 206,901 | | |
| *Total Liabilities* | **14,426,555** | | | 14,737,928 | | |
| Shareholders equity | **2,133,267** | | | 1,868,661 | | |
| *Total Liabilities and Shareholders Equity* | **$ 16,559,822** | | | $ 16,606,589 | | |
| Net interest income/net interest margin (FTE) | | **143,039** | **3.76%** | | 131,766 | 3.43% |
| Tax equivalent adjustment | | **(3,881)** | | | (3,822) | |

| | | |
|---|---|---|
| Net interest income | **$ 139,158** | $ 127,944 |

(1) Includes dividends earned on equity securities.
(2) Includes non-performing loans.
(3) Balances include amortized historical cost for available for sale securities. The related unrealized holding gains (losses) are included in other assets.

The following table summarizes the changes in FTE interest income and expense due to changes in average balances (volume) and changes in rates:

| | 2010 vs. 2009 | | |
|---|---|---|---|
| | Increase (decrease) due to change in | | |
| | Volume | Rate | Net |
| | | (in thousands) | |
| Interest income on: | | | |
| Loans, net of unearned income | **$ (20)** | **$ (4,092)** | **$ (4,112)** |
| Taxable investment securities | **(3,055)** | **(1,221)** | **(4,276)** |
| Tax-exempt investment securities | **(1,547)** | **274** | **(1,273)** |
| Equity securities | **28** | **45** | **73** |
| Loans held for sale | **(903)** | **(58)** | **(961)** |
| Other interest-earning assets | **234** | **(43)** | **191** |
| *Total interest income* | **$ (5,263)** | **$ (5,095)** | **$ (10,358)** |
| Interest expense on: | | | |
| Demand deposits | **$ 203** | **$ (365)** | **$ (162)** |
| Savings deposits | **1,333** | **(346)** | **987** |
| Time deposits | **(3,469)** | **(13,544)** | **(17,013)** |
| Short-term borrowings | **(487)** | **(44)** | **(531)** |
| FHLB advances and long-term debt | **(4,391)** | **(521)** | **(4,912)** |
| *Total interest expense* | **$ (6,811)** | **$ (14,820)** | **$ (21,631)** |

Interest income decreased $10.4 million, or 5.1%. A 23 basis point, or 4.4%, decrease in average yields resulted in a $5.1 million decrease in interest income. The remaining $5.3 million decrease was due to a $124.8 million, or 0.8%, decrease in average interest-earning assets.

Average loans, by type, are summarized in the following table:

| | Three months ended June 30 | | Increase (decrease) | |
|---|---|---|---|---|
| | 2010 | 2009 | $ | % |
| | | (dollars in thousands) | | |
| Real estate commercial mortgage | **$ 4,319,540** | $ 4,091,498 | $ 228,042 | 5.6% |
| Commercial industrial, financial and agricultural | **3,686,442** | 3,656,294 | 30,148 | 0.8 |
| Real estate home equity | **1,638,260** | 1,668,562 | (30,302) | (1.8) |
| Real estate residential mortgage | **972,129** | 935,983 | 36,146 | 3.9 |
| Real estate construction | **909,836** | 1,152,195 | (242,359) | (21.0) |
| Consumer | **362,883** | 371,610 | (8,727) | (2.3) |
| Leasing and other | **70,086** | 84,527 | (14,441) | (17.1) |
| *Total* | **$ 11,959,176** | $ 11,960,669 | $ (1,493) | 0.0% |

The Corporation experienced growth in its commercial mortgage ($228.0 million, or 5.6%), residential mortgage ($36.1 million, or 3.9%) and commercial loan ($30.1 million, or 0.8%) portfolios.

Geographically, the growth in commercial mortgages was mainly attributable to the Corporation s Pennsylvania ($142.9 million, or 6.8%, increase) and Maryland ($40.1 million, or 11.5%, increase) markets. Commercial loan growth was primarily in the Pennsylvania ($99.1 million, or 4.2%) and New Jersey ($22.2 million, or 4.1%) markets, partially offset by declines in the Maryland ($48.0 million, or 11.7%) and Virginia ($43.4 million, or 14.2%) markets.

The $36.1 million, or 3.9%, increase in residential mortgages was primarily due to the Corporation retaining 10 and 15 year fixed rate mortgages in portfolio. These loans were underwritten to the standards required for sale to third-party investors. However, the Corporation elected to retain them in its portfolio due to their relatively attractive yields.

The $242.4 million, or 21.0%, decrease in construction loans was primarily due to efforts to decrease credit exposure in this portfolio. Geographically, the decline was throughout all of the Corporation s markets, with decreases in Maryland ($98.9 million, or 32.1%), New Jersey ($70.4 million, or 30.1%), Virginia ($59.7 million, or 20.8%) and Pennsylvania ($11.8 million, or 3.8%). The decrease in home equity loans was mainly due to residential mortgage refinances, driven by low interest rates.

The average yield on loans decreased 14 basis points, or 2.6%, from 5.49% in 2009 to 5.35% in 2010, despite the average prime rate remaining at 3.25% for the second quarter of both 2010 and 2009. The decrease in average yields on loans was attributable to repayments of higher-yielding loans and declining average rates on fixed and adjustable rate loans which, unlike floating rate loans, have a lagged repricing effect.

Average investments decreased $388.7 million, or 11.9%, due largely to sales of collateralized mortgage obligations and maturities of mortgage-backed securities, the proceeds of which were not fully reinvested into the portfolio, because current rates on many investment options were not attractive. The average yield on investments decreased 16 basis points, or 3.6%, from 4.47% in 2009 to 4.31% in 2010, as investment security purchases were at yields that were lower than the overall portfolio yield.

Other interest-earning assets, consisting of interest-bearing deposits with other banks, increased $345.3 million, or 1,652.4%. The Corporation invested $226.3 million of proceeds received from its May 2010 common stock offering in short-term funds, with the intent of redeeming its outstanding preferred stock. Because final approval to redeem the preferred stock did not occur until July 2010, the impact of investing these funds in interest-bearing deposits with other banks for almost two months had a negative impact on net interest margin as the average yield on interest-bearing deposits with other banks was 0.25% for the second quarter of 2010, compared to an average yield for investment securities of 4.31%.

Interest expense decreased $21.6 million, or 30.8%, to $48.5 million in the second quarter of 2010 from $70.2 million in the same period in 2009. Interest expense decreased $14.8 million as a result of a 61 basis point, or 27.6%, decrease in the average cost of interest-bearing liabilities. Interest expense decreased an additional $6.8 million as a result of a $571.4 million, or 4.5%, decline in average interest-bearing liabilities.

The following table summarizes the changes in average deposits, by type:

| | **Three months ended** | | | |
|---|---|---|---|---|
| | **June 30** | | **Increase (decrease)** | |
| | **2010** | **2009** | **$** | **%** |
| | | **(dollars in thousands)** | | |
| Noninterest-bearing demand | **$ 2,079,674** | $ 1,812,539 | $ 267,135 | 14.7% |
| Interest-bearing demand | **2,019,605** | 1,818,897 | 200,708 | |