FULTON FINANCIAL CORP
Form 10-Q
May 10, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20459

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012, 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 (State or other jurisdiction of incorporation or organization)	23-2195389 (I.R.S. Employer Identification No.)
One Penn Square, P.O. Box 4887, Lancaster, Pennsylvania (Address of principal executive offices)	17604 (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 ý 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 ý 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	ý	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 ý

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 – 200,791,000 shares outstanding as of April 30, 2012.

FULTON FINANCIAL CORPORATION
FORM 10-Q FOR THE THREE MONTHS ENDED MARCH 31, 2012
INDEX

Description		Page
PART I. FINANCIAL INFORMATION		
Item 1. Financial Statements (Unaudited):		
(a)	Consolidated Balance Sheets - March 31, 2012 and December 31, 2011	3
(b)	Consolidated Statements of Income - Three months ended March 31, 2012 and 2011	4
(c)	Consolidated Statements of Comprehensive Income - Three months ended March 31, 2012 and 2011	5
(d)	Consolidated Statements of Shareholders' Equity - Three months ended March 31, 2012 and 2011	6
(e)	Consolidated Statements of Cash Flows - Three months ended March 31, 2012 and 2011	7
(f)	Notes to Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations		29
Item 3. Quantitative and Qualitative Disclosures about Market Risk		44
Item 4. Controls and Procedures		49
PART II. OTHER INFORMATION		
Item 1. Legal Proceedings		50
Item 1A. Risk Factors		50
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds		50
Item 3. Defaults Upon Senior Securities		50
Item 4. Mine Safety Disclosures		50
Item 5. Other Information		50
Item 6. Exhibits		50
Signatures		51

Exhibit Index 52

Item 1. Financial Statements

FULTON FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS

(in thousands, except per-share data)

	March 31, 2012 (unaudited)	December 31, 2011
ASSETS		
Cash and due from banks	$286,875	$292,598
Interest-bearing deposits with other banks	106,227	175,336
Loans held for sale	70,128	47,009
Investment securities:		
Held to maturity (estimated fair value of $6,626 in 2012 and $6,699 in 2011)	6,608	6,669
Available for sale	3,082,799	2,673,298
Loans, net of unearned income	11,957,600	11,968,970
Less: Allowance for loan losses	(256,496)	(256,471)
Net Loans	11,701,104	11,712,499
Premises and equipment	215,756	212,274
Accrued interest receivable	51,247	51,098
Goodwill	535,980	536,005
Intangible assets	7,403	8,204
Other assets	472,095	655,518
Total Assets	$16,536,222	$16,370,508
LIABILITIES		
Deposits:		
Noninterest-bearing	$2,682,259	$2,588,034
Interest-bearing	9,658,463	9,937,705
Total Deposits	12,340,722	12,525,739
Short-term borrowings:		
Federal funds purchased	585,547	253,470
Other short-term borrowings	379,003	343,563
Total Short-Term Borrowings	964,550	597,033
Accrued interest payable	27,674	25,686
Other liabilities	246,432	189,362
Federal Home Loan Bank advances and long-term debt	933,981	1,040,149
Total Liabilities	14,513,359	14,377,969
SHAREHOLDERS’ EQUITY		
Common stock, $2.50 par value, 600 million shares authorized, 216.2 million shares issued in 2012 and 2011	540,594	540,386
Additional paid-in capital	1,423,875	1,423,727
Retained earnings	288,151	264,059
Accumulated other comprehensive income	12,109	7,955
Treasury stock, at cost, 15.9 million shares outstanding in 2012 and 16.0 million shares oustanding in 2011	(241,866)	(243,588)
Total Shareholders’ Equity	2,022,863	1,992,539
Total Liabilities and Shareholders’ Equity	$16,536,222	$16,370,508

See Notes to Consolidated Financial Statements

FULTON FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per-share data)

	Three Months Ended March 31	
	2012	2011
INTEREST INCOME		
Loans, including fees	$144,346	$149,496
Investment securities:		
Taxable	18,661	21,807
Tax-exempt	2,701	3,175
Dividends	699	683
Loans held for sale	431	500
Other interest income	53	33
Total Interest Income	166,891	175,694
INTEREST EXPENSE		
Deposits	16,250	23,286
Short-term borrowings	281	254
Long-term debt	11,665	12,591
Total Interest Expense	28,196	36,131
Net Interest Income	138,695	139,563
Provision for credit losses	28,000	38,000
Net Interest Income After Provision for Credit Losses	110,695	101,563
OTHER INCOME		
Service charges on deposit accounts	14,842	13,305
Other service charges and fees	10,555	11,482
Mortgage banking income	10,050	5,463
Investment management and trust services	9,377	9,204
Other	5,605	3,722
Investment securities gains (losses), net:		
Other-than-temporary impairment losses	—	(995)
Less: Portion of gain recognized in other comprehensive income (before taxes)	—	(296)
Net other-than-temporary impairment losses	—	(1,291)
Net gains on sales of investment securities	1,251	3,576
Investment securities gains, net	1,251	2,285
Total Other Income	51,680	45,461
OTHER EXPENSES		
Salaries and employee benefits	60,360	54,308
Net occupancy expense	10,935	11,366
Data processing	3,688	3,372
Equipment expense	3,369	3,132
Operating risk loss	3,368	(462)
FDIC insurance expense	3,021	4,754
Other real estate owned and repossession expense	2,928	1,271
Professional fees	2,582	2,849
Marketing	2,472	2,836
Software	2,175	2,031
Intangible amortization	801	1,178
Other	15,012	14,229

Total Other Expenses	110,711	100,864
Income Before Income Taxes	51,664	46,160
Income taxes	13,532	12,375
Net Income	$38,132	$33,785
PER SHARE:		
Net Income (Basic)	$0.19	$0.17
Net Income (Diluted)	0.19	0.17
Cash Dividends	0.07	0.04

See Notes to Consolidated Financial Statements

FULTON FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended March 31	
	2012	2011
	(in thousands)	
Net Income	$38,132	$33,785
Other Comprehensive Income:		
Unrealized gain on securities (net of a $2.5 million and $1.9 million tax effect in 2012 and 2011, respectively)	4,584	3,568
Non-credit related unrealized gain on other-than-temporarily impaired debt securities (net of a $73,000 and $134,000 tax effect in 2012 and 2011, respectively)	135	249
Unrealized gain on derivative financial instruments (net of an $18,000 tax effect in 2012 and 2011)	34	34
Amortization (accretion) of net unrecognized pension and postretirement plan items (net of a $115,000 and $6,000 tax effect in 2012 and 2011, respectively)	214	(12)
Reclassification adjustment for securities gains included in net income (net of a $438,000 and $800,000 tax effect in 2012 and 2011, respectively)	(813)	(1,485)
Other Comprehensive Income	4,154	2,354
Total Comprehensive Income	$42,286	$36,139

See Notes to Consolidated Financial Statements

FULTON FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2012 AND 2011

(in thousands, except per-share data)

	Common Stock						
	Shares Outstanding	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2011	200,164	$540,386	$1,423,727	$264,059	$ 7,955	$(243,588)	$1,992,539
Net income				38,132			38,132
Other comprehensive income					4,154		4,154
Stock issued, including related tax benefits	190	208	(565)			1,722	1,365
Stock-based compensation awards			713				713
Common stock cash dividends - $0.07 per share				(14,040)			(14,040)
Balance at March 31, 2012	200,354	$540,594	$1,423,875	$288,151	$ 12,109	$(241,866)	$2,022,863
Balance at December 31, 2010	199,050	$538,492	$1,420,127	$158,453	$ 12,495	$(249,178)	$1,880,389
Net income				33,785			33,785
Other comprehensive income					2,354		2,354
Stock issued, including related tax benefits	141	177	(8)			1,062	1,231
Stock-based compensation awards			547				547
Common stock cash dividends - $0.04 per share				(7,984)			(7,984)
Balance at March 31, 2011	199,191	$538,669	$1,420,666	$184,254	$ 14,849	$(248,116)	$1,910,322

See Notes to Consolidated Financial Statements

FULTON FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Three Months Ended March 31	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$38,132	$33,785
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	28,000	38,000
Depreciation and amortization of premises and equipment	5,327	5,104
Net amortization of investment securities premiums	2,849	1,704
Investment securities gains	(1,251)	(2,285)
Net (increase) decrease in loans held for sale	(23,119)	53,037
Amortization of intangible assets	801	1,178
Stock-based compensation	713	547
Excess tax benefits from stock-based compensation	(3)	—
(Increase) decrease in accrued interest receivable	(149)	963
(Increase) decrease in other assets	(428)	14,626
Increase in accrued interest payable	1,988	1,059
Increase (decrease) in other liabilities	10,282	(6,362)
Total adjustments	25,010	107,571
Net cash provided by operating activities	63,142	141,356
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available for sale	183,685	411,196
Proceeds from maturities of securities held to maturity	75	92
Proceeds from maturities of securities available for sale	177,855	161,756
Purchase of securities held to maturity	(14)	(8)
Purchase of securities available for sale	(539,783)	(282,144)
Decrease (increase) in short-term investments	69,109	(49,996)
Net (increase) decrease in loans	(16,670)	17,757
Net purchases of premises and equipment	(8,809)	(5,458)
Net cash (used in) provided by investing activities	(134,552)	253,195
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in demand and savings deposits	(47,636)	210,068
Net decrease in time deposits	(137,381)	(190,039)
Increase (decrease) in short-term borrowings	367,517	(259,679)
Repayments of long-term debt	(106,168)	(83,761)
Net proceeds from issuance of stock	1,362	1,231
Excess tax benefits from stock-based compensation	3	—
Dividends paid	(12,010)	(5,972)
Net cash provided by (used in) financing activities	65,687	(328,152)
Net (Decrease) Increase in Cash and Due From Banks	(5,723)	66,399
Cash and Due From Banks at Beginning of Period	292,598	198,954
Cash and Due From Banks at End of Period	$286,875	$265,353

Supplemental Disclosures of Cash Flow Information:
Cash paid during the period for:

Interest	$26,208	$35,072
Income taxes	4,169	145

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 conformity 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-month period ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. The Corporation evaluates subsequent events through the date of filing with the Securities and Exchange Commission (SEC).

NOTE B – Net Income Per Share

The Corporation's basic net income per common share is calculated as net income divided by the weighted average number of common shares outstanding.

For diluted net income per common share, net income 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 and restricted stock.

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 for the three months ended March 31:

	2012	2011
	(in thousands)	
Weighted average shares outstanding (basic)	199,492	198,599
Effect of dilutive securities	852	687
Weighted average shares outstanding (diluted)	200,344	199,286

For the three months ended March 31, 2012 and 2011, 5.2 million and 4.6 million stock options, respectively, were excluded from the diluted net income per share computation as their effect would have been anti-dilutive.

NOTE C – Accumulated Other Comprehensive Income

The following tables present changes in each component of accumulated other comprehensive income for the three months ended March 31, 2012 and 2011:

	Unrealized Gains on Investment Securities Not Other-Than-Temporarily Impaired	Unrealized Non-Credit Losses on Other-Than-Temporarily Impaired Debt Securities	Unrecognized Pension and Postretirement Plan Items	Unrealized Effective Portions of Losses on Forward-Starting Interest Rate Swaps	Total
	(in thousands)				
Three months ended March 31, 2012					
Balance at December 31, 2011	$27,054	$ (1,011)	$ (15,134)	$ (2,954)	$7,955
Current-period other comprehensive income	3,771	135	214	34	4,154
Balance at March 31, 2012	$30,825	$ (876)	$ (14,920)	$ (2,920)	$12,109

Three months ended March 31, 2011					
Balance at December 31, 2010	$22,354	$ (2,355)	$ (4,414)	$ (3,090)	$12,495
Current-period other comprehensive income (loss)	1,437	895	(12)	34	2,354
Balance at March 31, 2011	$23,791	$ (1,460)	$ (4,426)	$ (3,056)	$14,849

NOTE D – Investment Securities

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

Held to Maturity at March 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value
	(in thousands)				
U.S. Government sponsored agency securities	$6,001	$—	$(21	)	$5,980
State and municipal securities	179	—	—		179
Mortgage-backed securities	428	39	—		467
	$6,608	$39	$(21	)	$6,626
Available for Sale at March 31, 2012					
Equity securities	$110,336	$3,811	$(1,028	)	$113,119
U.S. Government securities	330	—	—		330
U.S. Government sponsored agency securities	3,980	71	(1	)	4,050
State and municipal securities	296,231	14,437	(36	)	310,632
Corporate debt securities	132,686	6,235	(11,341	)	127,580
Collateralized mortgage obligations	1,077,326	19,678	(419	)	1,096,585
Mortgage-backed securities	1,174,146	33,126	(646	)	1,206,626
Auction rate securities	241,682	151	(17,956	)	223,877
	$3,036,717	$77,509	$(31,427	)	$3,082,799

Held to Maturity at December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Estimated Fair Value
	(in thousands)				
U.S. Government sponsored agency securities	$5,987	$—	$(14	)	$5,973
State and municipal securities	179	—	—		179
Mortgage-backed securities	503	44	—		547
	$6,669	$44	$(14	)	$6,699
Available for Sale at December 31, 2011					
Equity securities	$117,486	$2,383	$(2,819	)	$117,050
U.S. Government securities	334	—	—		334
U.S. Government sponsored agency securities	3,987	87	(1	)	4,073
State and municipal securities	306,186	15,832	—		322,018
Corporate debt securities	132,855	4,979	(14,528	)	123,306
Collateralized mortgage obligations	982,851	19,186	(828	)	1,001,209
Mortgage-backed securities	848,675	31,837	(415	)	880,097
Auction rate securities	240,852	120	(15,761	)	225,211
	$2,633,226	$74,424	$(34,352	)	$2,673,298

Securities carried at $1.8 billion as of March 31, 2012 and December 31, 2011 were pledged as collateral to secure public and trust deposits and customer repurchase agreements. Available for sale equity securities include restricted investment securities issued by the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank totaling $79.7 million and $82.5 million as of March 31, 2012 and December 31, 2011, respectively.

The amortized cost and estimated fair values of debt securities as of March 31, 2012, 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	$179	$179	$55,804	$56,063
Due from one year to five years	6,001	5,980	42,008	43,985
Due from five years to ten years	—	—	151,445	162,134
Due after ten years	—	—	425,652	404,287
	6,180	6,159	674,909	666,469
Collateralized mortgage obligations	—	—	1,077,326	1,096,585
Mortgage-backed securities	428	467	1,174,146	1,206,626
	$6,608	$6,626	$2,926,381	$2,969,680

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 March 31, 2012				
Equity securities	$1,086	$—	$—	$1,086
Debt securities	165	—	—	165
Total	$1,251	$—	$—	$1,251
Three months ended March 31, 2011:				
Equity securities	$5	$—	$(297)	$(292)
Debt securities	3,589	(18)	(994)	2,577
Total	$3,594	$(18)	$(1,291)	$2,285

The following table presents a summary of the cumulative credit related other-than-temporary impairment charges, recognized as components of earnings, for debt securities still held by the Corporation at March 31, 2012 and 2011:

	2012	2011
	(in thousands)	
Balance of cumulative credit losses on debt securities, beginning of period	$(22,781)	$(27,560)
Additions for credit losses recorded which were not previously recognized as components of earnings	—	(994)
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	89	37
Balance of cumulative credit losses on debt securities, end of period	$(22,692)	$(28,517)

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 March 31, 2012:

	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	$197	$(1)	$5,379	$(21)	$5,576	$(22)
State and municipal securities	1,676	(36)	—	—	1,676	(36)
Corporate debt securities	9,503	(1,660)	37,877	(9,681)	47,380	(11,341)
Collateralized mortgage obligations	161,795	(419)	—	—	161,795	(419)
Mortgage-backed securities	201,971	(646)	—	—	201,971	(646)
Auction rate securities	14,574	(623)	193,699	(17,333)	208,273	(17,956)
Total debt securities	389,716	(3,385)	236,955	(27,035)	626,671	(30,420)
Equity securities	8,424	(761)	1,914	(267)	10,338	(1,028)
	$398,140	$(4,146)	$238,869	$(27,302)	$637,009	$(31,448)

For its investments in equity securities, particularly 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 March 31, 2012 to be other-than-temporarily impaired. As of March 31, 2012, the financial institutions stock portfolio had a cost basis of $24.0 million and a fair value of $26.8 million.

The unrealized holding losses on 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 purchased ARCs for 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 March 31, 2012, approximately $173 million, or 77%, of the ARCs were rated above investment grade, with approximately $27 million, or 12%, AAA rated and $106 million, or 47%, AA rated. Approximately $51 million, or 23%, of ARCs were either not rated or rated below investment grade by at least one ratings agency. Of this amount, approximately $32 million, or 63%, of the student loans underlying these ARCs have principal payments which are guaranteed by the federal government. In total, approximately $203 million, or 91%, of the student loans underlying the ARCs have principal payments which are guaranteed by the federal government. As of March 31, 2012, all ARCs were current and making scheduled interest payments. Based on management's evaluations, ARCs with a fair value of $223.9 million were not subject to any other-than-temporary impairment charges as of March 31, 2012. 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 at maturity.

The Corporation's collateralized mortgage obligations and mortgage-backed securities have contractual terms that generally do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the decline in market value of these securities is attributable to changes in interest rates and not credit quality, and because the Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, the Corporation does not consider these investments to be other-than-temporarily impaired as of March 31, 2012.

The majority of the Corporation's available for sale corporate debt securities are issued by financial institutions. The following table presents the amortized cost and estimated fair values of corporate debt securities:

	March 31, 2012		December 31, 2011	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
	(in thousands)			
Single-issuer trust preferred securities	$83,935	$77,625	$83,899	$74,365
Subordinated debt	40,211	42,357	40,184	41,296
Pooled trust preferred securities	6,004	5,062	6,236	5,109
Corporate debt securities issued by financial institutions	130,150	125,044	130,319	120,770
Other corporate debt securities	2,536	2,536	2,536	2,536
Available for sale corporate debt securities	$132,686	$127,580	$132,855	$123,306

The Corporation’s investments in single-issuer trust preferred securities had an unrealized loss of $6.3 million at March 31, 2012. The Corporation did not record any other-than-temporary impairment charges for single-issuer trust preferred securities during the three months ended March 31, 2012 or 2011, respectively. The Corporation held 13 single-issuer trust preferred securities that were rated below investment grade by at least one ratings agency, with an amortized cost of $41.2 million and an estimated fair value of $40.6 million at March 31, 2012. The majority of the single-issuer trust preferred securities rated below investment grade were rated BB or Ba. Single-issuer trust preferred securities with an amortized cost of $7.8 million and an estimated fair value of $6.3 million at March 31, 2012 were not rated by any ratings agency.

The Corporation held ten pooled trust preferred securities as of March 31, 2012. Nine of these securities, with an amortized cost of $5.6 million and an estimated fair value of $4.7 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 was 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 is 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 39% as of March 31, 2012. The discounted cash flows modeling for pooled trust preferred securities held by the Corporation as of March 31, 2012 assumed, on average, an additional 15% expected deferral rate.

Based on management’s evaluations, corporate debt securities with a fair value of $127.6 million were not subject to any other-than-temporary impairment charges as of March 31, 2012. The Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, which may be maturity.

NOTE E – Loans and Allowance for Credit Losses

Loans, Net of Unearned Income

Loans, net of unearned income are summarized as follows:

	March 31, 2012	December 31, 2011
	(in thousands)	
Real-estate - commercial mortgage	$4,634,428	$4,602,596
Commercial - industrial, financial and agricultural	3,518,228	3,639,368
Real-estate - home equity	1,601,880	1,624,562
Real-estate - residential mortgage	1,176,947	1,097,192
Real-estate - construction	647,700	615,445
Consumer	308,495	318,101
Leasing and other	62,994	63,254
Overdrafts	13,782	15,446
Loans, gross of unearned income	11,964,454	11,975,964
Unearned income	(6,854)	(6,994)
Loans, net of unearned income	$11,957,600	$11,968,970

Allowance for Credit Losses

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

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

Effective April 1, 2011, the Corporation revised and enhanced its allowance for credit loss methodology. The significant revisions to the methodology included: (1) a reduction in the amount of loans evaluated for impairment under FASB ASC Section 310-10-35, resulting in only non-accrual loans and certain troubled debt restructurings (TDRs) being identified as impaired; (2) more frequent, quarterly evaluations of impaired loans, including obtaining more timely third-party appraisals for commercial loans collateralized by real estate; and (3) the use of a detailed regression analysis to compute allocation needs for pools of loans measured for impairment under FASB ASC Section 450-20. The Corporation’s conclusion as of March 31, 2011 that its total allowance for credit losses of $271.2 million was sufficient to cover losses inherent in the loan portfolio did not change as a result of implementing its new allowance for credit loss methodology.

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

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

	March 31, 2012	December 31, 2011
	(in thousands)	
Allowance for loan losses	$256,496	$256,471
Reserve for unfunded lending commitments	1,641	1,706
Allowance for credit losses	$258,137	$258,177

The following table presents the activity in the allowance for credit losses for the three months ended March 31:

	2012	2011
	(in thousands)	
Balance at beginning of period	$258,177	$275,498
Loans charged off	(30,259)	(45,529)
Recoveries of loans previously charged off	2,219	3,187
Net loans charged off	(28,040)	(42,342)
Provision for credit losses	28,000	38,000
Balance at end of period	$258,137	$271,156

The following tables present the activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2012 and 2011:

	Real Estate - Commercial Mortgage	Commercial - Industrial, Financial and Agricultural	Real Estate - Home Equity	Real Estate - Residential Mortgage	Real Estate - Construction	Consumer	Leasing and other and overdrafts	Unallocated	Total
	(in thousands)								
Three months ended March 31, 2012									
Balance at December 31, 2011	$85,112	$ 74,896	$ 12,841	$ 22,986	$ 30,066	$ 2,083	$2,397	$ 26,090	$256,471
Loans charged off	(11,891)	(5,669)	(2,206)	(847)	(8,571)	(634)	(441)	—	(30,259)
Recoveries of loans previously charged off	816	636	20	73	64	350	260	—	2,219
Net loans charged off	(11,075)	(5,033)	(2,186)	(774)	(8,507)	(284)	(181)	—	(28,040)
Provision for loan losses (1)	7,615	9,893	2,428	2,639	9,627	(156)	1,058	(5,039)	28,065
Balance at March 31, 2012	$81,652	$ 79,756	$ 13,083	$ 24,851	$ 31,186	$ 1,643	$3,274	$ 21,051	$256,496
Three months ended March 31, 2011									
Balance at December 31,	$40,831	$ 101,436	$ 6,454	$ 17,425	$ 58,117	$ 4,669	$3,840	$ 41,499	$274,271

2010									
Loans charged off	(10,047)	(13,336)	(1,468)	(4,996)	(13,894)	(1,291)	(497)	—	(45,529)
Recoveries of loans previously charged off	1,535	391	1	44	563	309	344	—	3,187
Net loans charged off	(8,512)	(12,945)	(1,467)	(4,952)	(13,331)	(982)	(153)	—	(42,342)
Provision for loan losses (1)	16,239	11,689	669	7,102	10,705	1,049	(1,111)	(7,999)	38,343
Balance at March 31, 2011	$48,558	$ 100,180	$ 5,656	$ 19,575	$ 55,491	$ 4,736	$ 2,576	$ 33,500	$ 270,272

(1) Provision for loan losses is gross of a $65,000 and $343,000 decrease, respectively, in provision applied to unfunded commitments for the three months ended March 31, 2012 and 2011. The total provision for credit losses, comprised of allocations for both funded and unfunded loans, was $28.0 million and $38.0 million for the three months ended March 31, 2012 and 2011, respectively.

The following tables present loans, net of unearned income and their related allowance for loan losses, by portfolio segment, as of March 31, 2012 and 2011:

	Real Estate - Commercial Mortgage	Commercial - Industrial, Financial and Agricultural	Real Estate - Home Equity	Real Estate - Residential Mortgage	Real Estate - Construction	Consumer	Leasing and other and overdrafts	Unallocated (1)	Total
	(in thousands)								
Allowance for loan losses at March 31, 2012									
Measured for impairment under FASB ASC Subtopic 450-20	$50,619	$47,484	$9,549	$8,045	$17,551	$1,638	$3,253	$21,051	$159,190
Evaluated for impairment under FASB ASC Section 310-10-35	31,033	32,272	3,534	16,806	13,635	5	21	N/A	97,306
	$81,652	$79,756	$13,083	$24,851	$31,186	$1,643	$3,274	$21,051	$256,496
Loans, net of unearned income at March 31, 2012									
Measured for impairment under FASB ASC Subtopic 450-20	$4,523,691	$3,441,018	$1,595,522	$1,136,199	$581,381	$308,487	$69,890	N/A	$11,656,188
Evaluated for impairment under FASB ASC Section 310-10-35	110,737	77,210	6,358	40,748	66,319	8	32	N/A	301,412
	$4,634,428	$3,518,228	$1,601,880	$1,176,947	$647,700	$308,495	$69,922	N/A	$11,957,600
Allowance for loan losses at March 31, 2011									
Measured for impairment under FASB ASC Subtopic 450-20	$26,327	$36,709	$5,656	$15,288	$39,448	$4,736	$2,576	$33,500	$164,240
Evaluated for impairment under FASB ASC Section 310-10-35	22,231	63,471	—	4,287	16,043	—	—	N/A	106,032
	$48,558	$100,180	$5,656	$19,575	$55,491	$4,736	$2,576	$33,500	$270,272
Loans, net of unearned income at March 31, 2011									
Measured for impairment under FASB ASC Subtopic 450-20	$4,224,868	$3,472,225	$1,620,340	$1,003,323	$629,359	$337,413	$60,051	N/A	$11,347,579

Evaluated for impairment under FASB ASC Section 310-10-35	167,811	220,443	—	18,928	118,447	—	—	N/A	525,629
	$4,392,679	$3,692,668	$1,620,340	$1,022,251	$747,806	$337,413	$60,051	N/A	$11,873,208

(1) The Corporation's unallocated allowance, which was approximately 8% and 12% as of March 31, 2012 and 2011, respectively, was reasonable and appropriate as the estimates used in the allocation process are inherently imprecise.

N/A – Not applicable.

Impaired Loans

A loan is considered to be impaired if it is probable that all amounts will not be collected according to the contractual terms of the loan agreement.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. Impaired loans with balances greater than $1.0 million are evaluated individually for impairment. Impaired loans with balances less than $1.0 million are pooled and measured for impairment collectively. As of March 31, 2012 and December 31, 2011, substantially all of the Corporation's individually evaluated impaired loans were measured based on the estimated fair value of each loan's collateral. Collateral could be in the form of real estate in the case of impaired commercial mortgages, construction loans and residential mortgages, or business assets, such as accounts receivable or inventory, in the case of commercial loans. Commercial loans may also be secured by real property.

As of March 31, 2012 and 2011, approximately 82% and 57%, respectively, of impaired loans with principal balances greater than $1.0 million, whose primary collateral is real estate, were measured at estimated fair value using certified third-party appraisals that had been updated within the preceding 12 months.

Where updated certified appraisals are not obtained for loans evaluated for impairment under FASB ASC Section 310-10-35 that are secured by real estate, fair values are estimated based on one or more of the following:

- Original appraisal – if the original appraisal indicated a very strong loan to value position and, in the opinion of the Corporation's internal loan evaluation staff, there has not been a significant deterioration in the collateral value, the original appraisal may be used to support the value of the collateral. Original appraisals are typically used only when the estimated collateral value, as adjusted, results in a current loan to value ratio that is lower than the Corporation's policy for new loans, generally 80%.
- Broker price opinions – in lieu of obtaining an updated certified appraisal, a less formal indication of value, such as a broker price opinion, may be obtained. These opinions are generally used to validate internal estimates of collateral value

and are not relied upon as the sole determinant of fair value.

- Discounted cash flows – while substantially all of the Corporation's impaired loans are measured based on the estimated fair value of collateral, discounted cash flows analyses may be used to validate estimates of collateral value derived from other approaches.

The following table presents total impaired loans by class segment:

	March 31, 2012			December 31, 2011			Three Months Ended March 31, 2012		Three Months Ended March 31, 2011	
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized (1)	Average Recorded Investment	Interest Income Recognized
	(in thousands)									
With no related allowance recorded:										
Real estate - commercial mortgage	$54,397	$40,526	$—	$54,445	$46,768	$—	$43,647	$71	$54,346	$403
Commercial - secured	28,420	21,679	—	35,529	28,440	—	25,060	7	25,767	146
Commercial - unsecured	13	13	—	—	—	—	7	—	528	3
Real estate - home equity	500	500	—	—	—	—	350	—	—	—
Real estate - residential mortgage	491	491	—	199	199	—	246	2	13,665	43
Construction - commercial residential	66,370	30,492	—	62,822	31,233	—	30,863	25	32,406	178
Construction - commercial	3,597	3,143	—	3,604	3,298	—	3,221	2	2,909	20
	153,788	96,844		156,599	109,938		103,394	107	129,621	793
With a related allowance recorded:										
Real estate - commercial mortgage	91,655	70,211	31,033	100,529	79,566	36,060	74,889	122	108,720	839
Commercial - secured	67,416	52,478	30,005	61,970	47,652	26,248	50,065	13	194,450	1,177
Commercial - unsecured	3,408	3,040	2,267	3,139	2,789	2,177	2,915	1	6,782	31
Real estate - home equity	5,858	5,858	3,534	5,294	5,294	3,076	5,576	—	15,664	90
Real estate - residential mortgage	40,257	40,257	16,806	39,918	39,918	16,295	40,088	390	91,482	435
Construction - commercial residential	42,751	28,492	11,886	41,176	25,632	11,287	27,062	22	2,901	17

Construction - commercial	5,201	3,020	1,065	3,221	1,049	506	2,035	2	—	—
Construction - other	1,172	1,172	684	1,127	1,127	663	1,150	1	—	—
Consumer - direct	8	8	5	368	368	228	188	—	—	—
Leasing and other and overdrafts	32	32	21	56	56	37	44	—	—	—
Total	257,758	204,568	97,306	256,798	203,451	96,577	204,012	551	419,999	2,589
	$411,546	$301,412	$97,306	$413,397	$313,389	$96,577	$307,406	$658	$549,620	$3,382

(1) Effective April 1, 2011 all impaired loans, excluding certain accruing TDRs, were non-accrual loans. Interest income recognized for the three months ended March 31, 2012 represents amounts earned on accruing TDRs.

As of March 31, 2012 and December 31, 2011, there were $96.8 million and $109.9 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 their carrying amount and, accordingly, no specific valuation allowance was considered to be necessary.

Credit Quality Indicators and Non-performing Assets

The following table presents internal credit risk ratings for commercial loans, commercial mortgages and certain construction loans, by class segment:

	Pass		Special Mention		Substandard or Lower		Total	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
	(in thousands)							
Real estate - commercial mortgage	$4,127,388	$4,099,103	$169,227	$160,935	$337,813	$342,558	$4,634,428	$4,602,596
Commercial - secured	2,877,106	2,977,957	160,129	166,588	258,410	249,014	3,295,645	3,393,559
Commercial -unsecured	208,144	230,962	3,371	6,066	11,068	8,781	222,583	245,809
Total commercial - industrial, financial and agricultural	3,085,250	3,208,919	163,500	172,654	269,478	257,795	3,518,228	3,639,368
Construction - commercial residential	167,038	175,706	48,350	50,854	141,222	126,378	356,610	352,938
Construction - commercial	211,577	186,049	4,684	7,022	18,308	16,309	234,569	209,380
Total construction (excluding Construction - other)	378,615	361,755	53,034	57,876	159,530	142,687	591,179	562,318
	$7,591,253	$7,669,777	$385,761	$391,465	$766,821	$743,040	$8,743,835	$8,804,282
% of Total	86.8 %	87.1 %	4.4 %	4.5 %	8.8 %	8.4 %	100.0 %	100.0 %

The following table presents a summary of delinquency and non-performing status for home equity, residential mortgages, construction - other and consumer loans by class segment:

	Performing		Delinquent (1)		Non-performing (2)		Total	
	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011	March 31, 2012	December 31, 2011
	(in thousands)							
Real estate - home equity	$1,579,174	$1,601,722	$11,792	$11,633	$10,914	$11,207	$1,601,880	$1,624,562
Real estate - residential mortgage	1,121,395	1,043,733	32,536	37,123	23,016	16,336	1,176,947	1,097,192
Construction - other	54,424	49,593	843	2,341	1,254	1,193	56,521	53,127
Consumer - direct	31,529	34,263	505	657	407	518	32,441	35,438
Consumer - indirect	146,798	151,112	1,518	2,437	81	183	148,397	153,732

Consumer - other	122,518	122,894	2,793	3,354	2,346	2,683	127,657	128,931
Total consumer	300,845	308,269	4,816	6,448	2,834	3,384	308,495	318,101
Leasing and other and overdrafts	69,097	70,550	477	1,049	348	107	69,922	71,706
	$3,124,935	$3,073,867	$50,464	$58,594	$38,366	$32,227	$3,213,765	$3,164,688
% of Total	97.2 %	97.1 %	1.6 %	1.9 %	1.2 %	1.0 %	100.0 %	100.0 %

(1) Includes all accruing loans 31 days to 89 days past due.
(2) Includes all accruing loans 90 days or more past due and all non-accrual loans.

The following table presents non-performing assets:

	March 31, 2012	December 31, 2011
	(in thousands)	
Non-accrual loans	$248,719	$257,761
Accruing loans greater than 90 days past due	35,270	28,767
Total non-performing loans	283,989	286,528
Other real estate owned (OREO)	33,516	30,803
Total non-performing assets	$317,505	$317,331

The following table presents TDRs, by portfolio segment:

	March 31, 2012	December 31, 2011
	(in thousands)	
Real-estate - residential mortgage	$33,800	$32,331
Real-estate - commercial mortgage	28,153	22,425
Real-estate - construction	10,303	7,645
Commercial - industrial, financial and agricultural	4,075	3,581
Consumer	464	193
Total accruing TDRs	76,795	66,175
Non-accrual TDRs (1)	32,411	32,587
Total TDRs	$109,206	$98,762

(1) Included within non-accrual loans in table detailing non-performing assets above.

As of March 31, 2012 and December 31, 2011, there were $150,000 and $1.7 million respectively, of commitments to lend additional funds to borrowers whose loans were modified under TDRs.

The following table presents loans modified as TDRs during the three months ended March 31, 2012 and classified as TDRs as of March 31, 2012, by class segment:

	Number of Loans	Recorded Investment
	(dollars in thousands)	
Construction - commercial residential	3	$6,365
Real estate - residential mortgage	13	4,679
Commercial - secured	5	3,040
Real estate - commercial mortgage	4	5,669
Real estate - home equity	2	171
	27	$19,924

The following table presents loans modified as TDRs within the previous 12 months, and classified as TDRs as of March 31, 2012, which had a payment default during the three months ended March 31, 2012, by class segment:

	Number of Loans	Recorded Investment
	(dollars in thousands)	
Construction - commercial residential	3	$7,550
Real estate - commercial mortgage	9	4,088
Real estate - residential mortgage	8	1,714
Commercial - secured	2	115
Real estate - home equity	2	239
	24	$13,706

The following table presents past due status and non-accrual loans by portfolio segment and class segment:

	March 31, 2012							
	31-59 Days Past Due	60-89 Days Past Due	≥ 90 Days Past Due and Accruing	Non-accrual	Total ≥ 90 Days	Total Past Due	Current	Total
	(in thousands)							
Real estate - commercial mortgage	$13,925	$5,796	$5,564	$98,512	$104,076	$123,797	$4,510,631	$4,634,428
Commercial - secured	6,739	4,712	6,202	73,687	79,889	91,340	3,204,305	3,295,645
Commercial - unsecured	499	469	70	2,925	2,995	3,963	218,620	222,583
Total commercial - industrial, financial and agricultural	7,238	5,181	6,272	76,612	82,884	95,303	3,422,925	3,518,228
Real estate - home equity	8,826	2,966	5,167	5,747	10,914	22,706	1,579,174	1,601,880
Real estate - residential mortgage	22,838	9,698	15,274	7,742	23,016	55,552	1,121,395	1,176,947
Construction - commercial residential	2,329	478	—	52,372	52,372	55,179	301,431	356,610
Construction - commercial	—	—	128	6,163	6,291	6,291	228,278	234,569
Construction - other	171	672	82	1,172	1,254	2,097	54,424	56,521
Total real estate - construction	2,500	1,150	210	59,707	59,917	63,567	584,133	647,700
Consumer - direct	377	128	41	366	407	912	31,529	32,441
Consumer - indirect	1,211	307	81	—	81	1,599	146,798	148,397
Consumer - other	1,741	1,052	2,346	—	2,346	5,139	122,518	127,657
Total consumer	3,329	1,487	2,468	366	2,834	7,650	300,845	308,495
Leasing and other and overdrafts	388	89	315	33	348	825	69,097	69,922
	$59,044	$26,367	$35,270	$248,719	$283,989	$369,400	$11,588,200	$11,957,600

	December 31, 2011							
	31-59 Days Past Due	60-89 Days Past Due	≥ 90 Days Past Due and Accruing	Non-accrual	Total ≥ 90 Days	Total Past Due	Current	Total
	(in thousands)							
Real estate - commercial mortgage	$11,167	$14,437	$4,394	$109,412	$113,806	$139,410	$4,463,186	$4,602,596
Commercial - secured	9,284	4,498	4,831	73,048	77,879	91,661	3,301,899	3,393,560
Commercial - unsecured	671	515	409	2,656	3,065	4,251	241,557	245,808
Total commercial - industrial, financial and agricultural	9,955	5,013	5,240	75,704	80,944	95,912	3,543,456	3,639,368
Real estate - home equity	7,439	4,194	5,714	5,493	11,207	22,840	1,601,722	1,624,562
Real estate - residential mortgage	23,877	13,246	8,502	7,834	16,336	53,459	1,043,733	1,097,192
	2,372	4,824	1,656	53,420	55,076	62,272	290,665	352,937

Construction - commercial residential								
Construction - commercial	31	—	128	4,347	4,475	4,506	204,875	209,381
Construction - other	2,341	—	66	1,127	1,193	3,534	49,593	53,127
Total real estate - construction	4,744	4,824	1,850	58,894	60,744	70,312	545,133	615,445
Consumer - direct	455	202	150	368	518	1,175	34,263	35,438
Consumer - indirect	1,997	440	183	—	183	2,620	151,112	153,732
Consumer - other	2,251	1,103	2,683	—	2,683	6,037	122,894	128,931
Total consumer	4,703	1,745	3,016	368	3,384	9,832	308,269	318,101
Leasing and other and overdrafts	925	124	51	56	107	1,156	70,550	71,706
	$62,810	$43,583	$28,767	$257,761	$286,528	$392,921	$11,576,049	$11,968,970

NOTE F – Mortgage Servicing Rights

The following table summarizes the changes in mortgage servicing rights (MSRs) for the three months ended March 31, which are included in other assets on the consolidated balance sheets:

	2012	2011
	(in thousands)	
Amortized cost:		
Balance at beginning of period	$34,666	$30,700
Originations of mortgage servicing rights	2,778	2,658
Amortization	(2,185)	(1,298)
Balance at end of period	$35,259	$32,060
Valuation allowance	$(1,550)	$(1,550)
Net MSRs at end of period	$33,709	30,510

MSRs represent the economic value of contractual rights to service mortgage loans that have been sold. Accordingly, actual and expected prepayments of the underlying mortgage loans can impact the value of MSRs.

The Corporation estimates the fair value of its MSRs by discounting the estimated cash flows from servicing income, net of expense, over the expected life of the underlying loans at a discount rate commensurate with the risk associated with these assets. Expected life is based on the contractual terms of the loans, as adjusted for prepayment projections for mortgage-backed securities with rates and terms comparable to the loans underlying the MSRs. No adjustment to the valuation allowance was necessary as of March 31, 2012.

NOTE G – 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 2004 Stock Option and Compensation Plan (Employee Option Plan). In addition, employees may purchase stock under the Corporation's Employee Stock Purchase Plan.

The Corporation also grants restricted stock to non-employee members of the board of directors under its 2011 Directors' Equity Participation Plan (Directors' Plan). Under the Directors' Plan, the Corporation can grant equity awards to non-employee holding company and affiliate directors in the form of stock options, restricted stock or common stock.

The following table presents compensation expense and the related tax benefits for equity awards recognized in the consolidated statements of income for the three months ended March 31:

	2012	2011
	(in thousands)	
Stock-based compensation expense	$713	$547
Tax benefit	(159)	(136)
Stock-based compensation expense, net of tax	$554	$411

Stock option fair values are estimated through the use of the Black-Scholes valuation methodology as of the date of grant. Stock options carry terms of up to ten years. Restricted stock fair values are equal to the average trading price of the Corporation's stock on the date of grant. Restricted stock awards earn dividends during the vesting period, which are forfeitable if the awards do not vest. Stock options and restricted stock under the Employee Option Plan have historically been granted annually and become fully vested over or after a three year vesting period. Restricted stock awards under the Directors' Plan generally vest one year from the date of grant. Certain events, as defined in the Employee Option Plan and Directors' Plan, result in the acceleration of the vesting of both stock options and restricted stock. As of March 31, 2012, the Employee Option Plan had 12.6 million shares reserved for future grants through

2013. On April 1, 2012, the Corporation granted approximately 471,000 stock options and 312,000 shares of restricted stock under its Employee Option Plan.

As of March 31, 2012, the Directors' Plan had 490,000 shares reserved for future grants through 2021. On May 1, 2012, the

Corporation granted approximately 21,000 shares of restricted stock under its Directors' Plan.

NOTE H – Employee Benefit Plans

The Corporation maintains a defined benefit pension plan (Pension Plan) for certain employees, which was curtailed effective January 1, 2008. 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.

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 change in that funded status through other comprehensive income.

The net periodic benefit cost for the Corporation's Pension Plan, as determined by consulting actuaries, consisted of the following components for the three months ended March 31:

	2012	2011
	(in thousands)	
Service cost (1)	$39	$15
Interest cost	806	853
Expected return on plan assets	(808)	(837)
Net amortization and deferral	420	72
Net periodic benefit cost	$457	$103

(1) The Pension Plan service cost recorded for the three months ended March 31, 2012 and 2011, respectively, was related to administrative costs associated with the plan and not due to the accrual of additional participant benefits.

The net periodic benefit cost for the Corporation's Postretirement Plan, as determined by consulting actuaries, consisted of the following components for the three months ended March 31:

	2012	2011
	(in thousands)	
Service cost	$53	$51
Interest cost	87	107
Expected return on plan assets	(1)	(1)
Net accretion and deferral	(91)	(91)
Net periodic benefit cost	$48	$66

NOTE I – Derivative Financial Instruments

In connection with its mortgage banking activities, the Corporation enters into commitments to originate certain 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 sales or purchases of mortgage-backed securities to or from third-party counterparties to hedge the effect of changes in interest rates on the values of both the interest rate locks and mortgage loans held for sale. Forward sales commitments may also be in the form of commitments to sell individual mortgage loans at a fixed price at a future date. Both the interest rate locks and the forward commitments are accounted for as derivative financial instruments and are carried at fair value, determined as the amount that would be necessary to settle each derivative financial instrument at the balance sheet date. The amount necessary to settle each interest rate lock is 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. Gross derivative assets and liabilities are recorded within other assets and other liabilities, respectively, on the consolidated balance sheets, with changes in fair value during the period recorded within mortgage banking income on the consolidated statements of income. The other components of mortgage banking income are gains and losses on sales of mortgage loans, fair value adjustments on mortgage loans

held for sale and servicing income, net of MSR amortization.

The following table presents a summary of the notional amounts and fair values of derivative financial instruments:

	March 31, 2012		December 31, 2011	
	Notional Amount	Asset (Liability) Fair Value	Notional Amount	Asset (Liability) Fair Value
	(in thousands)			
Interest Rate Locks with Customers:				
Positive fair values	$348,992	$4,717	$181,583	$3,888
Negative fair values	3,968	(30)	1,593	(10)
Net interest rate locks with customers		4,687		3,878
Forward Commitments:				
Positive fair values	307,865	733	3,178	13
Negative fair values	46,956	(98)	173,208	(2,724)
Net forward commitments		635		(2,711)
Net derivative fair value asset		$5,322		$1,167

The following table presents a summary of the fair value gains and losses on derivative financial instruments for the three months ended March 31:

	2012	2011
	(in thousands)	
Interest rate locks with customers	$809	$1,920
Forward commitments	3,346	(9,285)
Fair value gains (losses) on derivative financial instruments	$4,155	$(7,365)

NOTE J – 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:

	March 31, 2012	December 31, 2011
	(in thousands)	
Commitments to extend credit	$3,900,856	$3,803,532
Standby letters of credit	432,225	444,019
Commercial letters of credit	28,795	31,557

The Corporation records a reserve for unfunded lending commitments, which represents management’s estimate of losses associated with unused commitments to extend credit. 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. Residential mortgage loans sold are primarily conforming, prime loans sold to government sponsored agencies such as the Federal National Mortgage Association (Fannie Mae). From 2004 to 2007, the Corporation's former Resource Bank subsidiary operated a national wholesale mortgage lending operation which sold non-prime loans to private investors.

The Corporation provides customary representations and warranties to investors that specify, among other things, that the loans have been underwritten to the standards established by the investor. The Corporation may be required to

repurchase a loan or

reimburse the investor for a credit loss incurred on a loan if it is determined that the representations and warranties have not been met. This generally results from an underwriting or documentation deficiency. As of March 31, 2012 and 2011, total outstanding repurchase requests totaled approximately $3.2 million and $2.4 million, respectively.
From 2000 to 2011, the Corporation sold loans to the FHLB under its Mortgage Partnership Finance Program (MPF Program). No loans have been sold under this program in 2012. The Corporation provided a "credit enhancement" for residential mortgage loans sold under the MPF Program whereby it would assume credit losses in excess of a defined "First Loss Account" (FLA) balance, up to specified amounts. The FLA is funded by the FHLB based on a percentage of the outstanding principal balance of loans sold. As of March 31, 2012, the unpaid principal balance of loans sold under the MPF Program was approximately $279 million. During the first quarter of 2012, credit losses under the MPF Program were projected to exceed the FLA, and, as a result, the Corporation recorded a $2.6 million reserve for expected credit losses related to loans sold under the MPF Program. This reserve was calculated based on delinquency status and estimated loss rates established through the Corporation's existing allowance for loan loss methodology.
As of March 31, 2012 and December 31, 2011, the reserve for losses on residential mortgage loans sold was $4.0 million and $1.5 million, respectively, including both reserves for credit losses under the MPF Program and reserves for representation and warranty exposures. Management believes that the reserves recorded as of March 31, 2012 are adequate. However, declines in collateral values, the identification of additional loans to be repurchased, or a deterioration of the FHLB portfolio's credit quality could necessitate additional reserves in the future.

Other Contingencies

The Corporation and its subsidiaries are involved in various legal proceedings in the ordinary course of the business of the Corporation. The Corporation evaluates the possible impact of pending litigation matters based on, among other factors, the advice of counsel, available insurance coverage and recorded liabilities and reserves for probable legal liabilities and costs. As of the date of this report, the Corporation believes that any liabilities, individually or in the aggregate, which may result from the final outcomes of pending proceedings are not expected to have a material adverse effect on the financial position, the operating results and/or the liquidity of the Corporation. However, litigation is often unpredictable and the actual results of litigation cannot be determined with certainty.

NOTE K – 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 has elected to measure mortgage loans held for sale at fair value to more accurately reflect the financial results 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 I, "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 mortgage banking income 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 mortgage loans held for sale:

	March 31, 2012	December 31, 2011
	(in thousands)	
Cost	$68,569	$45,324
Fair value	70,128	47,009

During the three months ended March 31, 2012, the Corporation recorded losses related to changes in fair values of mortgage loans held for sale of $126,000, compared to gains of $1.2 million for the three months ended March 31, 2011.

NOTE L – 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.

23

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 May 2011, the FASB issued ASC Update 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." ASC Update 2011-04 amends fair value measurement and disclosure requirements in U.S. GAAP for the purpose of improving the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards (IFRS). Among the amendments in ASC Update 2011-04 are expanded disclosure requirements that require companies to quantitatively disclose inputs used in recurring Level 3 fair value measurements and to disclose the sensitivity of fair value measurement to changes in unobservable inputs. Effective March 31, 2012, the Corporation adopted the provisions of ASC Update 2011-04 and, as such, has included the required disclosures related to Level 3 fair value measurements below.
Following is a summary of the Corporation's assets and liabilities measured at fair value on a recurring basis and reported on the consolidated balance sheets:

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Mortgage loans held for sale	$—	$70,128	$—	$70,128
Available for sale investment securities:				
Equity securities	33,430	—	—	33,430
U.S. Government securities	—	330	—	330
U.S. Government sponsored agency securities	—	4,050	—	4,050
State and municipal securities	—	310,632	—	310,632
Corporate debt securities	—	118,158	9,422	127,580
Collateralized mortgage obligations	—	1,096,585	—	1,096,585
Mortgage-backed securities	—	1,206,626	—	1,206,626
Auction rate securities	—	—	223,877	223,877
Total available for sale investments	33,430	2,736,381	233,299	3,003,110
Other financial assets	14,382	5,450	—	19,832
Total assets	$47,812	$2,811,959	$233,299	$3,093,070
Other financial liabilities	$14,382	$128	$—	$14,510

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Mortgage loans held for sale	$—	$47,009	$—	$47,009
Available for sale investment securities:				
Equity securities	34,586	—	—	34,586
U.S. Government securities	—	334	—	334
U.S. Government sponsored agency securities	—	4,073	—	4,073
State and municipal securities	—	322,018	—	322,018
Corporate debt securities	—	114,017	9,289	123,306
Collateralized mortgage obligations	—	1,001,209	—	1,001,209
Mortgage-backed securities	—	880,097	—	880,097
Auction rate securities	—	—	225,211	225,211
Total available for sale investments	34,586	2,321,748	234,500	2,590,834
Other financial assets	13,130	3,901	—	17,031
Total assets	$47,716	$2,372,658	$234,500	$2,654,874
Other financial liabilities	$13,130	$2,734	$—	$15,864

The valuation techniques used to measure fair value for the items in the preceding tables 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 March 31, 2012 and December 31, 2011 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. Level 2 available for sale debt securities are valued by a third-party pricing service commonly used in the banking industry. The pricing service uses evaluated pricing models that vary based on asset class and incorporate available market information including quoted prices of investment securities with similar characteristics. Because many fixed income securities do not trade on a daily basis, evaluated pricing models use available information, as applicable, through processes such as benchmark yield curves, benchmarking of like securities, sector groupings, and matrix pricing.

Standard market inputs include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. For certain security types, additional inputs may be used, or some of the standard market inputs may not be applicable.

Management tests the values provided by the pricing service by obtaining securities prices from an alternative third-party source and comparing the results. This test is done for approximately 80% of the securities valued by the pricing service. Generally, differences by security in excess of 5% are researched to reconcile the difference.

Equity securities – Equity securities consist of stocks of financial institutions ($26.8 million at March 31, 2012 and $27.9 million at December 31, 2011) and other equity investments ($6.6 million at March 31, 2012 and $6.7 million at December 31, 2011). 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 FHLB and Federal Reserve Bank ($79.7 million at March 31, 2012 and $82.5 million at December 31, 2011) have been excluded from the preceding tables.

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, as detailed above.

Corporate debt securities – This category consists of subordinated debt issued by financial institutions ($42.4 million at March 31, 2012 and $41.3 million at December 31, 2011), single-issuer trust preferred securities issued by financial institutions ($77.6 million at March 31, 2012 and $74.4 million at December 31, 2011), pooled trust preferred securities issued by financial institutions ($5.1 million at March 31, 2012 and December 31, 2011) and other corporate debt issued by non-financial institutions ($2.5 million at March 31, 2012 and December 31, 2011).

Classified as Level 2 investments are the Corporation's subordinated debt, other corporate debt issued by non-financial institutions and $73.2 million and $70.2 million of single-issuer trust preferred securities held at March 31, 2012 and December 31, 2011, respectively. These corporate debt securities are measured at fair value by a third-party pricing service, as detailed above.

Classified as Level 3 assets are the Corporation's investments in pooled trust preferred securities and certain single-issuer trust preferred securities ($4.4 million at March 31, 2012 and $4.2 million at December 31, 2011). 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 markets for similar investments. Level 3 values are tested by management primarily through trend analysis, by comparing current values to those reported at the end of the preceding calendar quarter, and determining if they are reasonable based on price and spread movements for this asset class.

- 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 most significant unobservable input to the expected cash flows model is an assumed return to market liquidity sometime within the next three years. If the assumed return to market liquidity was lengthened beyond the next three years, this would result in a decrease in the fair value of these ARCs. Management tests Level 3 valuations for ARCs by performing a trend analysis of the market price and discount rate. Changes in the price and discount rates are compared to changes in market data, including bond ratings, parity ratios, balances

and delinquency levels. Any inconsistencies are reconciled through discussions with the third-party valuation expert.

- 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 amounts that would be required to settle the derivative financial instruments at the balance sheet date. See Note I, "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 months ended March 31, 2012 and 2011:

	2012		
	Available for Sale Investment Securities		
	Pooled Trust Preferred Securities	Single-issuer Trust Preferred Securities	ARC Investments
	(in thousands)		
Balance at December 31, 2011	$5,109	$4,180	$225,211
Unrealized adjustment to fair value (1)	177	178	(2,164)
Settlements - calls	(223)	—	(317)
(Premium amortization) discount accretion (2)	(1)	2	1,147
Balance at March 31, 2012	$5,062	$4,360	$223,877
	2011		
Balance at December 31, 2010	$4,528	$8,583	$260,679
Transfer from Level 3 to Level 2 (3)	—	(800)	
Realized adjustment to fair value (4)	(994)	—	—
Unrealized adjustment to fair value (1)	1,430	312	77
Settlement - calls	(147)	—	(5,523)
(Premium amortization) discount accretion (2)	(1)	(1)	1,180
Balance at March 31, 2011	$4,816	$8,094	$256,413

(1) 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.

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

(3) During the three months ended March 31, 2011, one single-issuer trust preferred security with a fair value of $800,000 was reclassified as a Level 2 asset.

(4) 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.

Certain financial assets are not measured at fair value on an ongoing basis but are subject to fair value measurement in certain circumstances, such as upon their acquisition or when there is evidence of impairment. The following tables present the Corporation's financial assets measured at fair value on a nonrecurring basis and reported on the Corporation's consolidated balance sheets:

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Net loans	$—	$—	$204,106	$204,106
Other financial assets	—	—	67,225	67,225
Total assets	$—	$—	$271,331	$271,331

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Net loans	$—	$—	$216,812	$216,812
Other financial assets	—	—	63,919	63,919
Total assets	$—	$—	$280,731	$280,731

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

- Net loans – This category consists of loans that were evaluated for impairment under FASB ASC Section 310-10-35 and have been classified as Level 3 assets. 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 OREO ($33.5 million at March 31, 2012 and $30.8 million at December 31, 2011) and MSRs, net of the MSR valuation reserve ($33.7 million at March 31, 2012 and $33.1 million at December 31, 2011), 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 stratified and evaluated for impairment by comparing each stratum's carrying amount to its estimated fair value. Fair values are determined at the end of each quarter through a discounted cash flows valuation. Significant inputs to the valuations include expected net servicing income, the discount rate and the expected life of the underlying loans. Expected life is based on the contractual terms of the loans, as adjusted for prepayment projections for mortgage-backed securities with rates and terms comparable to the loans underlying the MSRs. The annual constant prepayment rates used in the March 31, 2012 discounted cash flows valuation ranged from 11.0% to 18.5%, and were based on the weighted average remaining term of loans in each stratum.

As required by FASB ASC Section 825-10-50, the following table details the book values and estimated fair values of the Corporation's financial instruments as of March 31, 2012 and December 31, 2011. In addition, 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. The aggregate fair value amounts presented do not necessarily represent management's estimate of the underlying value of the Corporation.

	March 31, 2012		December 31, 2011	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
	(in thousands)			
FINANCIAL ASSETS				
Cash and due from banks	$286,875	$286,875	$292,598	$292,598
Interest-bearing deposits with other banks	106,227	106,227	175,336	175,336
Loans held for sale (1)	70,128	70,128	47,009	47,009
Securities held to maturity	6,608	6,626	6,669	6,699
Securities available for sale (1)	3,082,799	3,082,799	2,673,298	2,673,298
Loans, net of unearned income (1)	11,957,600	11,793,170	11,968,970	11,992,586
Accrued interest receivable	51,247	51,247	51,098	51,098
Other financial assets (1)	138,327	138,327	315,952	315,952
FINANCIAL LIABILITIES				
Demand and savings deposits	$8,464,151	$8,464,151	$8,511,789	$8,511,789
Time deposits	3,876,571	3,917,020	4,013,950	4,056,247
Short-term borrowings	964,550	964,550	597,033	597,033
Accrued interest payable	27,674	27,674	25,686	25,686
Other financial liabilities (1)	122,118	122,118	69,816	69,816
Federal Home Loan Bank advances and long-term debt	933,981	876,401	1,040,149	982,010

(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 disclosed above.

For short-term financial instruments, defined as those with remaining maturities of 90 days or less and excluding those recorded at fair value on the Corporation's consolidated balance sheets, book value 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 financial instruments within the above-listed categories 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 March 31, 2012 and December 31, 2011 were based on quoted market prices. The estimated fair value of securities would be categorized within Level 2 assets under FASB ASC Topic 820.

Estimated fair values for loans and time deposits were estimated by discounting future cash flows using the current rates at which similar loans would be made to borrowers for the same remaining maturities. Fair values estimated in this manner do not fully incorporate an exit price approach to fair value, as defined in FASB ASC Topic 820.

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 estimated fair value of these borrowings would be categorized within Level 2 assets under FASB ASC Topic 820.

The fair values of commitments to extend credit and standby letters of credit are estimated to equal their carrying amounts.

NOTE M – Reclassifications

Certain amounts in the 2011 consolidated financial statements and notes have been reclassified to conform to the 2012 presentation.

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 condition and results of operations. Many factors could affect future financial results including, without limitation: the impact of adverse changes in the economy and real estate markets; increases in non-performing assets which may reduce the level of earning assets and require the Corporation to increase the allowance for credit losses, charge-off loans and incur elevated collection and carrying costs related to such non-performing assets; acquisition and growth strategies; market risk; changes or adverse developments in political or regulatory conditions; a disruption in, or abnormal functioning of, credit and other markets, including the lack of or reduced access to markets for mortgages and other asset-backed securities and for commercial paper and other short-term borrowings; changes in the levels of, or methodology for determining, FDIC deposit insurance premiums and assessments; the effect of competition and interest rates on net interest margin and net interest income; investment strategy and other 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; relative 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," "plans," "expects," "future," "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 and uncertainties, some of which are beyond the Corporation’s control and ability to predict, that could cause actual results to differ materially from those expressed 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, 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 Three months ended March 31	
	2012	2011
Income before income taxes (in thousands)	$51,664	$46,160
Net income (in thousands)	$38,132	$33,785
Diluted net income per share (1)	$0.19	$0.17
Return on average assets	0.94 %	0.85 %
Return on average common equity (2)	7.61 %	7.21 %
Return on average tangible common equity (3)	10.56 %	10.36 %
Net interest margin (4)	3.85 %	3.91 %
Non-performing assets to total assets	1.92 %	2.22 %
Net charge-offs to average loans	0.94 %	1.42 %

(1) Net income divided by diluted weighted average common shares outstanding.
(2) Net income divided by average common shareholders' equity.
(3) Net income, as adjusted for intangible asset amortization (net of tax), divided by average common shareholders' equity, net of goodwill and intangible assets.
(4) Presented on an 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 first quarter of 2012 increased $5.5 million, or 11.9%, from the same period in 2011. The increase in income before taxes was mainly due to a $10.0 million decrease in the provision for credit losses and a $4.6 million increase in mortgage banking income, partially offset by a $6.1 million increase in salaries and employee benefits and a $3.5 million increase in estimated losses on previously sold residential mortgages.

Asset quality and net interest income continue to be key drivers of financial performance for the Corporation, and the industry in general. During the first quarter of 2012, mortgage banking activities were also significant. The following is a brief overview of each of these areas.

Asset Quality - During the first quarter of 2012, economic conditions improved throughout most of the Corporation's markets. As noted above, the Corporation's provision for credit losses decreased $10.0 million, or 26.3%, to $28.0 million for the first quarter of 2012 as compared to $38.0 million for the first quarter of 2011, due to an improvement in credit quality. Non-performing loans, overall delinquency rates and net loans charged off all improved in the first quarter 2012 in comparison to the same period in 2011.

Mortgage Banking Operations - During the first quarter of 2012, mortgage banking income increased $4.6 million, or 84.0%, with gains on sales of mortgage loans increasing $5.2 million, or 113.0%. The increase in gains on sales of mortgage loans was due to a $287.4 million, or 87.5%, increase in new commitments and a slight increase in pricing spreads. The increase in new commitments was largely due to an increase in refinances in the persistent low interest rate environment.

Estimated losses on residential mortgage loans previously originated and sold by the Corporation increased $3.5 million in comparison to the first quarter of 2011. During the first quarter of 2012, the Corporation recorded a $2.6 million charge due to an exposure in one specific investor program with the Federal Home Loan Bank (FHLB). Under this program, the Corporation provided a "credit enhancement" for residential mortgage loans sold, whereby it was responsible for credit losses above defined levels, up to specified amounts. As of March 31, 2012, the unpaid principal balance of loans sold under the program was approximately $279 million. During the first quarter of 2012, credit losses under the program were projected to exceed defined levels and, as a result, the Corporation recorded a reserve for estimated credit losses as of March 31, 2012. See Note J, "Commitments and Contingencies," in the Notes to Consolidated Financial Statements for additional details.

Net Interest Income and Net Interest Margin - Net interest income decreased $868,000, or 0.6%, in the first quarter of 2012 in comparison to the first quarter of 2011. This decrease was driven by a 6 basis point, or 1.5%, decrease in the

net interest margin, from 3.91% in the first quarter of 2011 to 3.85% in the first quarter of 2012. In addition, an increase in net premium amortization on mortgage-backed securities due to higher prepayments contributed 2 basis points to the decrease in net interest margin.

The continuing low interest rate environment has resulted in a decline in yields on earning assets, partially offset by the positive impact of lower funding costs as deposits and borrowings mature and are replaced with lower cost funds.

Quarter Ended March 31, 2012 compared to the Quarter Ended March 31, 2011
Net Interest Income
FTE net interest income decreased $600,000, or 0.4%, from $143.5 million in the first quarter of 2011 to $142.9 million in the first quarter of 2012. This decrease was primarily due to a decrease in net interest margin, offset by the effect of an additional day in the first quarter of 2012 as compared to the same period in 2011.
Net interest margin decreased 6 basis points, or 1.5%, from 3.91% for the first quarter of 2011 to 3.85% for the first quarter of 2012. The decrease in net interest margin was due to the net effect of a 29 basis point, or 5.9%, decrease in yields on interest-earning assets and a 25 basis point, or 20.2%, decrease in funding costs.

The following table provides a comparative average balance sheet and net interest income analysis for the first quarter of 2012 as compared to the same period in 2011. 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 March 31							
	2012				2011			
ASSETS	Average Balance	Interest (1)	Yield/ Rate		Average Balance	Interest (1)	Yield/ Rate	
Interest-earning assets:								
Loans, net of unearned income (2)	$11,978,972	$147,046	4.94	%	$11,921,442	$151,686	5.15	%
Taxable investment securities (3)	2,402,158	18,661	3.11		2,331,323	21,807	3.75	
Tax-exempt investment securities (3)	294,724	4,157	5.64		344,457	4,885	5.67	
Equity securities (3)	115,593	780	2.71		132,841	752	2.28	
Total investment securities	2,812,475	23,598	3.36		2,808,621	27,444	3.91	
Loans held for sale	40,478	431	4.26		45,418	500	4.41	
Other interest-earning assets	101,570	53	0.21		66,381	33	0.20	
Total interest-earning assets	14,933,495	171,128	4.61	%	14,841,862	179,663	4.90	%
Noninterest-earning assets:								
Cash and due from banks	263,128				260,395			
Premises and equipment	212,567				207,389			
Other assets	1,102,868				1,102,543			
Less: Allowance for loan losses	(266,092)				(282,017)			
Total Assets	$16,245,966				$16,130,172			
LIABILITIES AND EQUITY								
Interest-bearing liabilities:								
Demand deposits	$2,464,452	$1,036	0.17	%	$2,322,098	$1,436	0.25	%
Savings deposits	3,341,035	1,810	0.22		3,282,790	3,358	0.41	
Time deposits	3,951,908	13,404	1.36		4,532,528	18,492	1.65	
Total interest-bearing deposits	9,757,395	16,250	0.67		10,137,416	23,286	0.93	
Short-term borrowings	728,102	281	0.15		622,662	254	0.16	
FHLB advances and long-term debt	983,304	11,665	4.76		1,061,523	12,591	4.78	
Total interest-bearing liabilities	11,468,801	28,196	0.99	%	11,821,601	36,131	1.24	%
Noninterest-bearing liabilities:								
Demand deposits	2,565,089				2,238,200			
Other								