FULTON FINANCIAL CORP
Form 10-Q
August 08, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20459

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011, or

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

For the transition period from to

Commission File No. 0-10587

FULTON FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

(717) 291-2411

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

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

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FULTON FINANCIAL CORPORATION

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

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Item 1. Financial Statements

FULTON FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except per-share data)

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

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

See Notes to Consolidated Financial Statements

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FULTON FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per-share data)

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

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

See Notes to Consolidated Financial Statements

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FULTON FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME (UNAUDITED)

SIX MONTHS ENDED JUNE 30, 2011 AND 2010

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

See Notes to Consolidated Financial Statements

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FULTON FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

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

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

See Notes to Consolidated Financial Statements

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FULTON FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A Basis of Presentation

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

NOTE B Net Income Per Common Share and Other Comprehensive Income

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

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

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

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

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

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The following table presents the components of other comprehensive income:

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

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

NOTE C Investment Securities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The amortized cost of pooled trust preferred securities is the purchase price of the securities, net of cumulative credit related other-than-temporary impairment charges, determined using an expected cash flows model. The most significant input to the expected cash flows model was the expected payment deferral rate for each pooled trust preferred security. The Corporation evaluates the financial metrics, such as capital ratios and non-performing asset ratios, of the individual financial institution issuers that comprise each pooled trust preferred security to estimate its expected deferral rate. The actual weighted average cumulative defaults and deferrals as a percentage of original collateral were approximately 38% as of June 30, 2011. The discounted cash flow modeling for pooled trust preferred securities held by the Corporation as of June 30, 2011 assumed, on average, an additional 19% expected deferral rate.

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

NOTE D Loans and Allowance for Credit Losses

Loans, Net of Unearned Income

Loans, net of unearned income are summarized as follows:

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

Allowance for Credit Losses

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Real Estate - Commercial Mortgage	Commercial - Industrial, Financial and Agricultural	Real Estate - Home Equity	Real Estate - Residential Mortgage	Real Estate - Construction	Consumer	Leasing and other and Overdrafts	Unallocated	Total
					(in thousands)				
Three months ended June 30, 2011									
Balance at April 1, 2011	$ 48,558	$ 100,180	$ 5,656	$ 19,575	$ 55,491	$ 4,736	$ 2,576	$ 33,500	$ 270,272
Loans charged off	(7,074)	(15,406)	(1,650)	(7,707)	(7,468)	(681)	(689)	0	(40,675)
Recoveries of loans previously charged off	191	1,003	2	190	79	433	254	0	2,152
Net loans charged off	(6,883)	(14,403)	(1,648)	(7,517)	(7,389)	(248)	(435)	0	(38,523)
Provision for loan losses	9,040	10,224	1,862	11,958	7,239	343	590	(6,322)	34,934
Impact of change in allowance methodology	22,883	(13,388)	3,690	7,896	(24,771)	(3,076)	(944)	7,710	0
Provision for loan losses, including impact of change in allowance methodology (1)	31,923	(3,164)	5,552	19,854	(17,532)	(2,733)	(354)	1,388	34,934
Balance at June 30, 2011	$ 73,598	$ 82,613	$ 9,560	$ 31,912	$ 30,570	$ 1,755	$ 1,787	$ 34,888	$ 266,683
Six months ended June 30, 2011									
Balance at January 1, 2011	$ 40,831	$ 101,436	$ 6,454	$ 17,425	$ 58,117	$ 4,669	$ 3,840	$ 41,499	$ 274,271
Loans charged off	(17,121)	(28,742)	(3,118)	(12,703)	(21,362)	(1,972)	(1,186)	0	(86,204)
Recoveries of loans previously charged off	1,726	1,394	3	234	642	742	598	0	5,339
Net loans charged off	(15,395)	(27,348)	(3,115)	(12,469)	(20,720)	(1,230)	(588)	0	(80,865)
Provision for loan losses	25,279	21,913	2,531	19,060	17,944	1,392	(521)	(14,321)	73,277
Impact of change in allowance methodology	22,883	(13,388)	3,690	7,896	(24,771)	(3,076)	(944)	7,710	0
Provision for loan losses, including impact of change in allowance methodology (1)	48,162	8,525	6,221	26,956	(6,827)	(1,684)	(1,465)	(6,611)	73,277
Balance at June 30, 2011	$ 73,598	$ 82,613	$ 9,560	$ 31,912	$ 30,570	$ 1,755	$ 1,787	$ 34,888	$ 266,683

(1) Provision for loan losses is net of a $1.1 million and $723,000 increase in provision applied to unfunded commitments for the three and six months ended June 30, 2011, respectively. The total provision for credit losses, comprised of allocations for both funded and unfunded loans, was $36.0 million and $74.0 million for the three and six months ended June 30, 2011, respectively.

The following tables present loans, net of unearned income and their related allowance for loan losses, by portfolio segment, as of June 30, 2011 and December 31, 2010:

	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 June 30, 2011:									
Evaluated collectively for impairment under FASB ASC Subtopic 450-20	**$ 44,600**	**$ 53,373**	**$ 9,560**	**$ 5,953**	**$ 18,794**	**$ 1,597**	**$ 1,727**	**$ 34,888**	**$ 170,492**
Evaluated individually for impairment under FASB ASC Section 310-10-35	**28,998**	**29,240**	**0**	**25,959**	**11,776**	**158**	**60**	**N/A**	**96,191**
	$ 73,598	**$ 82,613**	**$ 9,560**	**$ 31,912**	**$ 30,570**	**$ 1,755**	**$ 1,787**	**$ 34,888**	**$ 266,683**
Loans, net of unearned income at June 30, 2011:									
Evaluated collectively for impairment under FASB ASC Subtopic 450-20	**$ 4,329,750**	**$ 3,587,702**	**$ 1,626,545**	**$ 955,863**	**$ 623,734**	**$ 330,754**	**$ 67,773**	**N/A**	**$ 11,522,121**
Evaluated individually for impairment under FASB ASC Section 310-10-35	**113,275**	**91,156**	**0**	**67,783**	**57,854**	**211**	**91**	**N/A**	**330,370**
Total	**$ 4,443,025**	**$ 3,678,858**	**$ 1,626,545**	**$ 1,023,646**	**$ 681,588**	**$ 330,965**	**$ 67,864**	**N/A**	**$ 11,852,491**
Allowance for loan losses at December 31, 2010:									
Evaluated collectively for impairment under FASB ASC Subtopic 450-20	$ 22,836	$ 32,323	$ 6,454	$ 11,475	$ 35,247	$ 4,669	$ 3,840	$ 41,499	$ 158,343
Evaluated individually for impairment under FASB ASC Section 310-10-35	17,995	69,113	0	5,950	22,870	0	0	N/A	115,928
	$ 40,831	$ 101,436	$ 6,454	$ 17,425	$ 58,117	$ 4,669	$ 3,840	$ 41,499	$ 274,271
Loans, net of unearned income at December 31, 2010:									
Evaluated collectively for impairment under FASB ASC Subtopic 450-20	$ 4,217,660	$ 3,469,775	$ 1,641,777	$ 956,260	$ 660,238	$ 350,161	$ 63,830	N/A	$ 11,359,701
Evaluated individually for impairment under FASB ASC	158,320	234,609	0	39,730	140,947	0	0	N/A	573,606

Section 310-10-35									
Total	$ 4,375,980	$ 3,704,384	$ 1,641,777	$ 995,990	$ 801,185	$ 350,161	$ 63,830	N/A	$ 11,933,307

(1) The Corporation s unallocated allowance, which was approximately 13% and 15% as of June 30, 2011 and December 31, 2010, respectively, was reasonable and appropriate as the estimates used in the allocation process are inherently imprecise.

N/A Not applicable

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Impaired Loans

A loan is considered to be impaired if the Corporation believes 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. As of June 30, 2011 and December 31, 2010, 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.

Impaired loans with balances less than $1.0 million are measured collectively based on a statistical model which applies PDs and LGDs based on historical losses as loans migrate through the various risk rating or delinquency categories.

The following table presents total impaired loans by class segment:

	June 30, 2011			Three months ended June 30, 2011		Six months ended June 30, 2011		December 31, 2010		
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized (1)	Average Recorded Investment	Interest Income Recognized	Unpaid Principal Balance	Recorded Investment	Related Allowance
	(in thousands)									
With no related allowance recorded:										
Real estate - commercial mortgage	$ 49,335	$ 41,764	N/A	$ 41,139	$ 87	$ 45,510	$ 490	$ 68,583	$ 54,251	N/A
Commercial - secured	37,660	35,613	N/A	32,313	15	30,790	161	38,366	27,745	N/A
Commercial - unsecured	0	0	N/A	0	0	196	3	710	587	N/A
Real estate - residential mortgage (2)	0	0	N/A	0	0	7,071	43	21,598	21,212	N/A
Construction - commercial residential	33,882	17,439	N/A	20,322	6	24,333	184	69,624	32,354	N/A
Construction - commercial	5,605	3,486	N/A	3,601	1	3,109	21	5,637	2,125	N/A
	126,482	98,302		97,375	109	111,009	902	204,518	138,274	
With a related allowance recorded:										
Real estate - commercial mortgage	92,006	71,511	$ 28,998	70,441	150	81,650	989	111,190	104,069	$ 17,995
Commercial - secured	63,700	52,623	26,752	47,747	22	97,723	1,199	202,824	197,674	64,922
Commercial - unsecured	3,102	2,920	2,488	3,193	2	4,996	33	8,681	8,603	4,191
Real estate - residential mortgage (2)	67,783	67,783	25,959	71,807	487	54,044	577	18,518	18,518	5,950
Construction - commercial residential	61,888	34,513	10,530	40,219	13	61,421	448	110,465	103,826	22,155
Construction - commercial	303	303	158	313	0	1,089	17	2,642	2,642	715
Construction - other	2,113	2,113	1,088	1,687	0	1,124	0	0	0	0
Consumer - direct	211	211	158	150	2	100	2	0	0	0
Leasing and other and overdrafts	91	91	60	77	0	51	0	0	0	0

	291,197	**232,068**	**96,191**	**235,634**	**676**	**302,198**	**3,265**	454,320	435,332	115,928
Total	**$ 417,679**	**$ 330,370**	**$ 96,191**	**$ 333,009**	**$ 785**	**$ 413,207**	**$ 4,167**	$ 658,838	$ 573,606	$ 115,928

(1) Effective April 1, 2011, all impaired loans, excluding certain accruing Impaired TDRs, were non-accrual loans. Interest income recognized for the three months ended June 30, 2011 represents amounts earned on accruing TDRs.

(2) Impaired residential mortgages include accruing TDRs that were modified in the current calendar year and/or not performing according to their modified terms.

N/A Not applicable.

As of June 30, 2011 and December 31, 2010, there were $98.3 million and $138.3 million, respectively, of impaired loans that did not have a related allowance for loan loss. The estimated fair values of the collateral for these loans exceeded the carrying amount of the loans and, accordingly, no specific valuation allowance was considered to be necessary.

For 2010, the total average recorded investment in impaired loans was approximately $772.3 million. The Corporation generally applies all payments received on non-accruing impaired loans to principal until such time as the principal is paid off, after which time any additional payments received are recognized as interest income. For 2010, the Corporation recognized interest income of approximately $27.4 million on impaired loans.

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Credit Quality Indicators and Non-performing Assets

The following table presents a summary of delinquency and non-performing status by portfolio segment and class segment:

	June 30, 2011			
	Performing	Delinquent (1)	Non-performing (2)	Total
	(in thousands)			
Real estate - commercial mortgage	**$ 4,314,764**	**$ 25,537**	**$ 102,724**	**$ 4,443,025**
Commercial - secured	**3,333,421**	**18,699**	**91,640**	**3,443,760**
Commercial -unsecured	**230,570**	**1,313**	**3,215**	**235,098**
Total Commercial - industrial, financial and agricultural	**3,563,991**	**20,012**	**94,855**	**3,678,858**
Real estate - home equity	**1,605,004**	**12,101**	**9,440**	**1,626,545**
Real estate - residential mortgage	**945,952**	**34,494**	**43,200**	**1,023,646**
Construction - commercial residential	**348,197**	**2,022**	**52,413**	**402,632**
Construction - commercial	**223,510**	**8**	**3,789**	**227,307**
Construction - other	**47,305**	**2,165**	**2,179**	**51,649**
Total Real estate - construction	**619,012**	**4,195**	**58,381**	**681,588**
Consumer - direct	**37,161**	**496**	**77**	**37,734**
Consumer - indirect	**158,988**	**1,798**	**89**	**160,875**
Consumer - other	**128,220**	**2,212**	**1,924**	**132,356**
Total Consumer	**324,369**	**4,506**	**2,090**	**330,965**
Leasing and other and overdrafts	**67,344**	**368**	**152**	**67,864**
	$ 11,440,436	**$ 101,213**	**$ 310,842**	**$ 11,852,491**
	December 31, 2010			
Real estate - commercial mortgage	$ 4,257,871	$ 24,389	$ 93,720	$ 4,375,980
Commercial - secured	3,373,651	12,111	85,536	3,471,298
Commercial -unsecured	229,985	1,182	1,919	233,086
Total Commercial - industrial, financial and agricultural	3,603,636	13,293	87,455	3,704,384
Real estate - home equity	1,619,684	11,905	10,188	1,641,777
Real estate - residential mortgage	909,247	36,331	50,412	995,990
Construction - commercial residential	409,190	7,273	76,436	492,899
Construction - commercial	239,150	0	5,287	244,437
Construction - other	60,956	0	2,893	63,849
Total Real estate - construction	709,296	7,273	84,616	801,185
Consumer - direct	45,942	935	212	47,089
Consumer - indirect	166,531	2,275	290	169,096
Consumer - other	129,911	2,413	1,652	133,976

Total Consumer	342,384	5,623	2,154	350,161
Leasing and other and overdrafts	63,087	516	227	63,830
	$ 11,505,205	$ 99,330	$ 328,772	$ 11,933,307

(1) Includes all accruing loans 30 days to 89 days past due.
(2) Includes all accruing loans 90 days or more past due and all non-accrual loans.

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The following table presents non-performing assets:

	June 30, 2011	December 31, 2010
	(in thousands)	
Non-accrual loans	**$ 274,973**	$ 280,688
Accruing loans greater than 90 days past due	**35,869**	48,084
Total non-performing loans	**310,842**	328,772
Other real estate owned (OREO)	**37,493**	32,959
Total non-performing assets	**$ 348,335**	$ 361,731

The following table presents TDRs, by loan type:

	June 30, 2011	December 31, 2010
	(in thousands)	
Real-estate residential mortgage	**$ 37,006**	$ 37,826
Real-estate commercial mortgage	**30,735**	18,778
Real-estate construction	**5,589**	5,440
Commercial industrial, financial and agricultural	**3,055**	5,502
Consumer and home equity	**258**	263
Total accruing TDRs	**76,643**	67,809
Non-accrual TDRs (1)	**44,659**	51,175
Total TDRs	**$ 121,302**	$ 118,984

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

As of June 30, 2011 and December 31, 2010, there were $1.8 million and $1.6 million, respectively, of commitments to lend additional funds to borrowers whose loans were modified under TDRs.

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

	31-59 Days Past Due	60-89 Days Past Due	³ 90 Days Past Due and Accruing	Non-accrual	Total ³ 90 Days	Total Past Due	Current	Total
				June 30, 2011 (in thousands)				
Real estate - commercial mortgage	**$ 20,376**	**$ 5,161**	**$ 5,578**	**$ 97,146**	**$ 102,724**	**$ 128,261**	**$ 4,314,764**	**$ 4,443,025**
Commercial - secured	**13,077**	**5,622**	**5,892**	**85,748**	**91,640**	**110,339**	**3,333,421**	**3,443,760**
Commercial - unsecured	**823**	**490**	**295**	**2,920**	**3,215**	**4,528**	**230,570**	**235,098**
Total Commercial - industrial, financial and agricultural	**13,900**	**6,112**	**6,187**	**88,668**	**94,855**	**114,867**	**3,563,991**	**3,678,858**
Real estate - home equity	**10,112**	**1,989**	**9,241**	**199**	**9,440**	**21,541**	**1,605,004**	**1,626,545**
Real estate - residential mortgage	**24,031**	**10,463**	**12,197**	**31,003**	**43,200**	**77,694**	**945,952**	**1,023,646**
Construction - commercial residential	**1,569**	**453**	**461**	**51,952**	**52,413**	**54,435**	**348,197**	**402,632**
Construction - commercial	**8**	**0**	**0**	**3,789**	**3,789**	**3,797**	**223,510**	**227,307**
Construction - other	**2,165**	**0**	**66**	**2,113**	**2,179**	**4,344**	**47,305**	**51,649**
Total Real estate - construction	**3,742**	**453**	**527**	**57,854**	**58,381**	**62,576**	**619,012**	**681,588**
Consumer - direct	**343**	**153**	**65**	**12**	**77**	**573**	**37,161**	**37,734**
Consumer - indirect	**1,489**	**309**	**89**	**0**	**89**	**1,887**	**158,988**	**160,875**
Consumer - other	**1,226**	**986**	**1,924**	**0**	**1,924**	**4,136**	**128,220**	**132,356**
Total Consumer	**3,058**	**1,448**	**2,078**	**12**	**2,090**	**6,596**	**324,369**	**330,965**
Leasing and other and overdrafts	**339**	**29**	**61**	**91**	**152**	**520**	**67,344**	**67,864**
	$ 75,558	**$ 25,655**	**$ 35,869**	**$ 274,973**	**$ 310,842**	**$ 412,055**	**$ 11,440,436**	**$ 11,852,491**
				December 31, 2010				
Real estate - commercial mortgage	$ 15,898	$ 8,491	$ 6,744	$ 86,976	$ 93,720	$ 118,109	$ 4,257,871	$ 4,375,980
Commercial - secured	5,274	6,837	13,374	72,162	85,536	97,647	3,373,651	3,471,298
Commercial - unsecured	629	553	731	1,188	1,919	3,101	229,985	233,086
Total Commercial - industrial, financial and agricultural	5,903	7,390	14,105	73,350	87,455	100,748	3,603,636	3,704,384
Real estate - home equity	8,138	3,767	10,024	164	10,188	22,093	1,619,684	1,641,777
Real estate - residential mortgage	24,237	12,094	13,346	37,066	50,412	86,743	909,247	995,990
Construction - commercial residential	3,872	3,401	884	75,552	76,436	83,709	409,190	492,899
Construction - commercial	0	0	195	5,092	5,287	5,287	239,150	244,437
Construction - other	0	0	491	2,402	2,893	2,893	60,956	63,849
Total Real estate - construction	3,872	3,401	1,570	83,046	84,616	91,889	709,296	801,185
Consumer - direct	707	228	212	0	212	1,147	45,942	47,089
Consumer - indirect	1,916	359	290	0	290	2,565	166,531	169,096

Consumer - other	1,751	662	1,638	14	1,652	4,065	129,911	133,976
Total Consumer	4,374	1,249	2,140	14	2,154	7,777	342,384	350,161
Leasing and other and overdrafts	473	43	155	72	227	743	63,087	63,830
	$ 62,895	$ 36,435	$ 48,084	$ 280,688	$ 328,772	$ 428,102	$ 11,505,205	$ 11,933,307

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NOTE E Mortgage Servicing Rights

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
	(in thousands)			
Amortized cost:				
Balance at beginning of period	**$ 32,060**	$ 24,517	**$ 30,700**	$ 23,499
Originations of mortgage servicing rights	**2,010**	1,756	**4,668**	3,672
Amortization expense	**(1,261)**	(946)	**(2,559)**	(1,844)
Balance at end of period	**$ 32,809**	$ 25,327	**$ 32,809**	$ 25,327
Valuation allowance:				
Balance at beginning of period	**$ (1,550)**	$ (1,000)	**$ (1,550)**	$ (1,000)
Additions	**0**	0	**0**	0
Balance at end of period	**$ (1,550)**	$ (1,000)	**$ (1,550)**	$ (1,000)
Net MSRs at end of period	**$ 31,259**	$ 24,327	**$ 31,259**	$ 24,327

MSRs represent the economic value of existing 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.

The Corporation determined that the estimated fair value of MSRs was equal to their book value, net of the valuation allowance, at June 30, 2011. Therefore, no adjustment to the valuation allowance was necessary as of June 30, 2011.

NOTE F Stock-Based Compensation

The fair value of equity awards granted to employees is recognized as compensation expense over the period during which employees are required to provide service in exchange for such awards. The Corporation grants equity awards to employees, consisting of stock options and restricted stock, under its 2004 Stock Option and Compensation Plan (Employee Option Plan). In addition, employees may purchase stock under the Corporation s Employee Stock Purchase Plan.

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
	(in thousands)			
Stock-based compensation expense	**$ 554**	$ 318	**$ 1,101**	$ 611

Tax benefit	**(119)**	(66)	**(255)**	(128)
Stock-based compensation expense, net of tax	**$ 435**	$ 252	**$ 846**	$ 483

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Stock option exercise prices are equal to the fair value of the Corporation s stock on the date of grant, and 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 are typically granted annually on July 1st and become fully vested over or after a three-year vesting period. Certain events, as defined in the Employee Option Plan, result in the acceleration of the vesting of both stock options and restricted stock. As of June 30, 2011, the Employee Option Plan had 13.0 million shares reserved for future grants through 2013. On July 1, 2011, the Corporation granted approximately 616,000 stock options and 267,000 shares of restricted stock under its Employee Option Plan.

On July 1, 2011, the Corporation also granted approximately 11,000 shares of restricted stock to non-employee directors of the holding company under its 2011 Directors Equity Participation Plan (Directors Plan) that become fully vested after one year. 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. As of June 30, 2011, the Directors Plan had 500,000 shares reserved for future grants through 2021.

NOTE G Employee Benefit Plans

The Corporation maintains a defined benefit pension plan (Pension Plan) for certain employees. Contributions to the Pension Plan are actuarially determined and funded annually, if required. Pension Plan assets are invested in: money markets; fixed income securities, including corporate bonds, U.S. Treasury securities and common trust funds; and equity securities, including common stocks and common stock mutual funds. Effective January 1, 2008, the Pension Plan was curtailed.

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

The Corporation recognizes the funded status of its Pension Plan and Postretirement Plan on the consolidated balance sheets and recognizes the changes in that funded status through other comprehensive income.

The net periodic benefit cost for the Corporation s Pension Plan and Postretirement Plan, as determined by consulting actuaries, consisted of the following components for the three and six months ended June 30:

	Pension Plan			
	Three months ended June 30		**Six months ended June 30**	
	2011	2010	**2011**	2010
	(in thousands)			
Service cost (1)	**$ 15**	$ 26	**$ 30**	$ 52
Interest cost	**853**	842	**1,706**	1,684
Expected return on plan assets	**(837)**	(802)	**(1,674)**	(1,604)
Net amortization and deferral	**72**	119	**144**	238
Net periodic benefit cost	**$ 103**	$ 185	**$ 206**	$ 370

(1) The Pension Plan service cost recorded for the three and six months ended June 30, 2011 and 2010, respectively, was related to administrative costs associated with the plan and not due to the accrual of additional participant benefits.

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	Postretirement Plan			
	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
	(in thousands)			
Service cost	**$ 50**	$ 48	**$ 101**	$ 98
Interest cost	**107**	110	**214**	220
Expected return on plan assets	**(1)**	(1)	**(2)**	(2)
Net accretion and deferral	**(91)**	(91)	**(182)**	(182)
Net periodic benefit cost	**$ 65**	$ 66	**$ 131**	$ 134

NOTE H Derivative Financial Instruments

In connection with its mortgage banking activities, the Corporation enters into commitments to originate fixed-rate residential mortgage loans for customers, also referred to as interest rate locks. In addition, the Corporation enters into forward commitments for the future sale or purchase of mortgage-backed securities to or from third-party investors to hedge the effect of changes in interest rates on the values of 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 on 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.

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

	June 30, 2011		December 31, 2010	
	Notional Amount	**Asset (Liability) Fair Value**	Notional Amount	Asset (Liability) Fair Value
	(in thousands)			
Interest Rate Locks with Customers:				
Positive fair values	**$ 163,795**	**$ 2,041**	$ 140,682	$ 777
Negative fair values	**3,736**	**(22)**	50,527	(760)
Net Interest Rate Locks with Customers		**2,019**		17
Forward Commitments:				
Positive fair values	**49,369**	**131**	558,861	8,479
Negative fair values	**118,459**	**(975)**	0	0
Net Forward Commitments		**(844)**		8,479
		$ 1,175		$ 8,496

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

	Three months ended June 30		Six months ended June 30	
	2011	2010	**2011**	2010
	(in thousands)			
Interest rate locks with customers (1)	**$ 82**	$ 1,499	**$ 2,002**	$ 2,521
Forward commitments (1)	**(38)**	(4,878)	**(9,323)**	(6,176)
	$ 44	$ (3,379)	**$ (7,321)**	$ (3,655)

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

Fair value gains and losses represent the changes in the fair values of derivative financial instruments during the period and are recognized on the consolidated statements of income as components of mortgage banking 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, gains and losses on the settlement of forward commitments, and net servicing income. Total mortgage ban