

FULTON FINANCIAL CORP  
Form 10-Q  
May 09, 2011  
Table of Contents

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 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)

Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

**PENNSYLVANIA**  
(State or other jurisdiction of

incorporation or organization)

**One Penn Square, P.O. Box 4887, Lancaster, Pennsylvania**  
(Address of principal executive offices)

**(717) 291-2411**

(Registrant's telephone number, including area code)

**23-2195389**  
(I.R.S. Employer

Identification No.)

**17604**  
(Zip Code)

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

Indicate by check mark whether the registrant 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  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

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

**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 199,263,000 shares outstanding as of April 29, 2011.

**Table of Contents**

**FULTON FINANCIAL CORPORATION**

**FORM 10-Q FOR THE THREE MONTHS ENDED MARCH 31, 2011**

**INDEX**

| Description  | Page |
|--|------|
| PART I. FINANCIAL INFORMATION  |      |
| Item 1. Financial Statements (Unaudited):  |      |
| (a) <u>Consolidated Balance Sheets - March 31, 2011 and December 31, 2010</u>  | 3    |
| (b) <u>Consolidated Statements of Income - Three months ended March 31, 2011 and 2010</u>  | 4    |
| (c) <u>Consolidated Statements of Shareholders' Equity and Comprehensive Income - Three months ended March 31, 2011 and 2010</u> | 5    |
| (d) <u>Consolidated Statements of Cash Flows - Three months ended March 31, 2011 and 2010</u>                                    | 6    |
| (e) <u>Notes to Consolidated Financial Statements</u>  | 7    |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                             | 29   |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>  | 45   |
| Item 4. <u>Controls and Procedures</u>   | 51   |
| PART II. OTHER INFORMATION   |      |
| Item 1. <u>Legal Proceedings</u>   | 52   |
| Item 1A. <u>Risk Factors</u>   | 52   |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 52   |
| Item 3. <u>Defaults Upon Senior Securities</u>   | 52   |
| Item 4. <u>Removed and Reserved</u>  | 52   |
| Item 5. <u>Other Information</u>   | 52   |
| Item 6. <u>Exhibits</u>  | 52   |
| <u>Signatures</u>  | 53   |
| <u>Exhibit Index</u>   | 54   |
| Certifications   |      |

**Table of Contents****Item 1. Financial Statements****FULTON FINANCIAL CORPORATION****CONSOLIDATED BALANCE SHEETS**

(in thousands, except per-share data)

|  | March 31<br>2011<br>(unaudited) | December 31<br>2010 |
|--|---------------------------------|---------------------|
| <b>ASSETS</b>  |                                 |                     |
| Cash and due from banks  | \$ 265,353                      | \$ 198,954          |
| Interest-bearing deposits with other banks                                     | 83,293                          | 33,297              |
| Loans held for sale  | 30,903                          | 83,940              |
| Investment securities:   |                                 |                     |
| Held to maturity (estimated fair value of \$7,347 in 2011 and \$7,818 in 2010) | 7,293                           | 7,751               |
| Available for sale   | 2,690,141                       | 2,853,733           |
| Loans, net of unearned income  | 11,873,208                      | 11,933,307          |
| Less: Allowance for loan losses  | (270,272)                       | (274,271)           |
| <i>Net Loans</i>   | <b>11,602,936</b>               | 11,659,036          |
| Premises and equipment   | 208,370                         | 208,016             |
| Accrued interest receivable  | 52,878                          | 53,841              |
| Goodwill   | 535,651                         | 535,518             |
| Intangible assets  | 11,283                          | 12,461              |
| Other assets   | 473,095                         | 628,707             |
| <i>Total Assets</i>  | <b>\$ 15,961,196</b>            | \$ 16,275,254       |
| <b>LIABILITIES</b>   |                                 |                     |
| Deposits:  |                                 |                     |
| Noninterest-bearing  | \$ 2,310,290                    | \$ 2,194,988        |
| Interest-bearing   | 10,098,320                      | 10,193,593          |
| <i>Total Deposits</i>  | <b>12,408,610</b>               | 12,388,581          |
| Short-term borrowings:   |                                 |                     |
| Federal funds purchased  | 8,285                           | 267,844             |
| Other short-term borrowings  | 406,113                         | 406,233             |
| <i>Total Short-Term Borrowings</i>   | <b>414,398</b>                  | 674,077             |
| Accrued interest payable   | 34,392                          | 33,333              |
| Other liabilities  | 157,785                         | 179,424             |
| Federal Home Loan Bank advances and long-term debt                             | 1,035,689                       | 1,119,450           |

Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

|  |                      |               |
|--|----------------------|---------------|
| <i>Total Liabilities</i>   | <b>14,050,874</b>    | 14,394,865    |
| <b>SHAREHOLDERS EQUITY</b>   |                      |               |
| Common stock, \$2.50 par value, 600 million shares authorized, 215.5 million shares issued in 2011 and 215.4 million shares issued in 2010 | <b>538,669</b>       | 538,492       |
| Additional paid-in capital   | <b>1,420,666</b>     | 1,420,127     |
| Retained earnings  | <b>184,254</b>       | 158,453       |
| Accumulated other comprehensive income:  |                      |               |
| Unrealized gains on investment securities not other-than-temporarily impaired  | <b>23,791</b>        | 22,354        |
| Unrealized non-credit related losses on other-than-temporarily impaired debt securities  | <b>(1,460)</b>       | (2,355)       |
| Unrecognized pension and postretirement plan costs   | <b>(4,426)</b>       | (4,414)       |
| Unamortized effective portions of losses on forward-starting interest rate swaps   | <b>(3,056)</b>       | (3,090)       |
| <i>Accumulated Other Comprehensive Income</i>  | <b>14,849</b>        | 12,495        |
| Treasury stock, 16.3 million shares in 2011 and 2010, at cost  | <b>(248,116)</b>     | (249,178)     |
| <i>Total Shareholders Equity</i>   | <b>1,910,322</b>     | 1,880,389     |
| <i>Total Liabilities and Shareholders Equity</i>   | <b>\$ 15,961,196</b> | \$ 16,275,254 |

*See Notes to Consolidated Financial Statements*

**Table of Contents****FULTON FINANCIAL CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

(in thousands, except per-share data)

|  | <b>Three Months Ended<br/>March 31</b> |             |
|--|--|-------------|
|  | <b>2011</b>                            | <b>2010</b> |
| <b>INTEREST INCOME</b>   |  |             |
| Loans, including fees  | <b>\$ 149,496</b>                      | \$ 157,534  |
| Investment securities:   |  |             |
| Taxable  | <b>21,807</b>                          | 28,149      |
| Tax-exempt   | <b>3,175</b>                           | 3,595       |
| Dividends  | <b>683</b>                             | 729         |
| Loans held for sale  | <b>500</b>                             | 556         |
| Other interest income  | <b>33</b>                              | 25          |
| <i>Total Interest Income</i>   | <b>175,694</b>                         | 190,588     |
| <b>INTEREST EXPENSE</b>  |  |             |
| Deposits   | <b>23,286</b>                          | 33,738      |
| Short-term borrowings  | <b>254</b>                             | 549         |
| Long-term debt   | <b>12,591</b>                          | 17,792      |
| <i>Total Interest Expense</i>  | <b>36,131</b>                          | 52,079      |
| <i>Net Interest Income</i>   | <b>139,563</b>                         | 138,509     |
| Provision for credit losses  | <b>38,000</b>                          | 40,000      |
| <i>Net Interest Income After Provision for Credit Losses</i>                         | <b>101,563</b>                         | 98,509      |
| <b>OTHER INCOME</b>  |  |             |
| Service charges on deposit accounts  | <b>13,305</b>                          | 14,267      |
| Other service charges and fees   | <b>11,482</b>                          | 10,165      |
| Investment management and trust services   | <b>9,204</b>                           | 8,088       |
| Mortgage banking income  | <b>5,463</b>                           | 4,149       |
| Other  | <b>4,421</b>                           | 3,814       |
| Total other-than-temporary impairment losses   | <b>(1,021)</b>                         | (5,251)     |
| Less: Portion of (gain) loss recognized in other comprehensive income (before taxes) | <b>(270)</b>                           | 274         |
| <i>Net other-than-temporary impairment losses</i>                                    | <b>(1,291)</b>                         | (4,977)     |
| <i>Net gains on sale of investment securities</i>                                    | <b>3,576</b>                           | 2,754       |
| <i>Net investment securities gains (losses)</i>                                      | <b>2,285</b>                           | (2,223)     |
| <i>Total Other Income</i>  | <b>46,160</b>                          | 38,260      |
| <b>OTHER EXPENSES</b>  |  |             |
| Salaries and employee benefits   | <b>54,308</b>                          | 52,345      |
| Net occupancy expense  | <b>11,366</b>                          | 11,650      |
| FDIC insurance expense   | <b>4,754</b>                           | 4,954       |
| Data processing  | <b>3,372</b>                           | 3,417       |
| Equipment expense  | <b>3,132</b>                           | 3,091       |

Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

|   |                  |           |
|---|------------------|-----------|
| Professional fees                                     | 2,849            | 2,546     |
| Marketing   | 2,836            | 1,830     |
| Other real estate owned and repossession expense      | 1,970            | 2,681     |
| Intangible amortization                               | 1,178            | 1,314     |
| Other   | 15,798           | 16,194    |
| <i>Total Other Expenses</i>                           | <b>101,563</b>   | 100,022   |
| <i>Income Before Income Taxes</i>                     | <b>46,160</b>    | 36,747    |
| Income taxes  | 12,375           | 9,267     |
| <i>Net Income</i>                                     | <b>33,785</b>    | 27,480    |
| Preferred stock dividends and discount accretion      | 0                | (5,065)   |
| <i>Net Income Available to Common Shareholders</i>    | <b>\$ 33,785</b> | \$ 22,415 |
| <b>PER COMMON SHARE:</b>                              |                  |           |
| Net income (basic)                                    | <b>\$ 0.17</b>   | \$ 0.13   |
| Net income (diluted)                                  | <b>0.17</b>      | 0.13      |
| Cash dividends  | <b>0.04</b>      | 0.03      |
| <i>See Notes to Consolidated Financial Statements</i> |                  |           |

**Table of Contents****FULTON FINANCIAL CORPORATION****CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (UNAUDITED)****THREE MONTHS ENDED MARCH 31, 2011 AND 2010**

|  | Common Stock |             |            | Additional     | Retained   | Accumulated   | Treasury     | Total         |  |
|--|--------------|-------------|------------|----------------|------------|---------------|--------------|---------------|--|
|  | Preferred    | Shares      | Amount     | Paid-in        | Earnings   | Other         | Stock        |               |  |
|  | Stock        | Outstanding |            | Capital        |            | Comprehensive |              |               |  |
|  |              |             |            |                |            | Income        |              |               |  |
|  |              |             |            | (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                                     |              |             |            |                | 33,785     |               |              | 33,785        |  |
| Other comprehensive income                     |              |             |            |                |            | 2,354         |              | 2,354         |  |
| <i>Total comprehensive income</i>              |              |             |            |                |            |               |              | <b>36,139</b> |  |
| 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                      | \$ 0         | 199,191     | \$ 538,669 | \$ 1,420,666   | \$ 184,254 | \$ 14,849     | \$ (248,116) | \$ 1,910,322  |  |
| 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                                     |              |             |            |                | 27,480     |               |              | 27,480        |  |
| Other comprehensive income                     |              |             |            |                |            | 14,334        |              | 14,334        |  |
| <i>Total comprehensive income</i>              |              |             |            |                |            |               |              | <b>41,814</b> |  |
| Stock issued, including related tax benefits   |              | 145         | 185        | (148)          |            |               | 1,212        | 1,249         |  |
| Stock-based compensation awards                |              |             |            | 293            |            |               |              | 293           |  |
| Preferred stock discount accretion             | 359          |             |            |                | (359)      |               |              | 0             |  |
| Preferred stock cash dividends                 |              |             |            |                | (4,706)    |               |              | (4,706)       |  |
| Common stock cash dividends - \$0.03 per share |              |             |            |                | (5,294)    |               |              | (5,294)       |  |
| Balance at March 31, 2010                      | \$ 370,649   | 176,509     | \$ 482,676 | \$ 1,257,875   | \$ 89,120  | \$ 21,792     | \$ (252,274) | \$ 1,969,838  |  |

*See Notes to Consolidated Financial Statements*



**Table of Contents****FULTON FINANCIAL CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

(in thousands)

|   | <b>Three Months Ended<br/>March 31</b> |               |
|---|--|---------------|
|   | <b>2011</b>                            | <b>2010</b>   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |  |               |
| Net Income  | \$ 33,785                              | \$ 27,480     |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |               |
| Provision for credit losses   | 38,000                                 | 40,000        |
| Depreciation and amortization of premises and equipment                           | 5,104                                  | 5,163         |
| Net amortization of investment securities premiums                                | 1,704                                  | 802           |
| Investment securities (gains) losses  | (2,285)                                | 2,223         |
| Net decrease in loans held for sale   | 53,037                                 | 31,586        |
| Amortization of intangible assets   | 1,178                                  | 1,314         |
| Stock-based compensation  | 547                                    | 293           |
| Decrease (increase) in accrued interest receivable                                | 963                                    | (174)         |
| Decrease in other assets  | 14,626                                 | 4,200         |
| Increase in accrued interest payable  | 1,059                                  | 2,651         |
| (Decrease) increase in other liabilities  | (6,362)                                | 6,368         |
| <b>Total adjustments</b>  | <b>107,571</b>                         | <b>94,426</b> |
| <i>Net cash provided by operating activities</i>                                  | <b>141,356</b>                         | 121,906       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |  |               |
| Proceeds from sales of securities available for sale                              | 411,196                                | 89,647        |
| Proceeds from maturities of securities held to maturity                           | 92                                     | 117           |
| Proceeds from maturities of securities available for sale                         | 161,756                                | 167,992       |
| Purchase of securities held to maturity   | (8)                                    | (84)          |
| Purchase of securities available for sale   | (282,144)                              | (76,296)      |
| (Increase) decrease in short-term investments                                     | (49,996)                               | 8,749         |
| Net decrease (increase) in loans  | 17,757                                 | (20,715)      |
| Net purchases of premises and equipment   | (5,458)                                | (5,109)       |
| <i>Net cash provided by investing activities</i>                                  | <b>253,195</b>                         | 164,301       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |  |               |
| Net increase in demand and savings deposits                                       | 210,068                                | 214,562       |
| Net decrease in time deposits   | (190,039)                              | (156,021)     |
| Decrease in short-term borrowings   | (259,679)                              | (244,290)     |
| Additions to long-term debt   | 0                                      | 45,000        |
| Repayments of long-term debt  | (83,761)                               | (145,018)     |
| Net proceeds from issuance of stock   | 1,231                                  | 1,249         |
| Dividends paid  | (5,972)                                | (9,997)       |
| <i>Net cash used in financing activities</i>                                      | <b>(328,152)</b>                       | (294,515)     |
| <b>Net Increase (Decrease) in Cash and Due From Banks</b>                         | <b>66,399</b>                          | (8,308)       |
| <b>Cash and Due From Banks at Beginning of Period</b>                             | <b>198,954</b>                         | 284,508       |

|  |                   |                   |
|--|-------------------|-------------------|
| <b>Cash and Due From Banks at End of Period</b>          | <b>\$ 265,353</b> | <b>\$ 276,200</b> |
| <b>Supplemental Disclosures of Cash Flow Information</b> |                   |                   |
| Cash paid during the period for:                         |                   |                   |
| Interest   | <b>\$ 35,072</b>  | <b>\$ 49,428</b>  |
| Income taxes   | <b>145</b>        | <b>37</b>         |
| <i>See Notes to Consolidated Financial Statements</i>    |                   |                   |

**Table of Contents****FULTON FINANCIAL CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****NOTE A Basis of Presentation**

The accompanying unaudited consolidated financial statements of Fulton Financial Corporation (the Corporation) have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities as of the date of the financial statements as well as revenues and expenses during the period. Actual results could differ from those estimates. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 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 March 31, 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.

|  | <b>Three months ended</b> |         |
|--|---------------------------|---------|
|  | <b>March 31</b>           |         |
|  | <b>2011</b>               | 2010    |
|  | (in thousands)            |         |
| Weighted average shares outstanding (basic)          | <b>198,599</b>            | 176,174 |
| Effect of dilutive securities                        | <b>687</b>                | 507     |
| <b>Weighted average shares outstanding (diluted)</b> | <b>199,286</b>            | 176,681 |

As of March 31, 2011, 4.6 million stock options were excluded from the diluted net income per share computation as their effect would have been anti-dilutive. As of March 31, 2010, 5.6 million stock options and a 5.5 million share common stock warrant were excluded from the diluted net income per share computation as their effects would have been anti-dilutive.

**Table of Contents**

The following table presents the components of other comprehensive income:

|  | Three months ended<br>March 31 |           |
|--|--------------------------------|-----------|
|  | 2011                           | 2010      |
|  | (in thousands)                 |           |
| Unrealized gain on securities (net of a \$1.9 million and \$7.0 million tax effect in 2011 and 2010, respectively)   | \$ 3,568                       | \$ 12,927 |
| Non-credit related unrealized gain (loss) on other-than-temporarily impaired debt securities (net of a \$134,000 and \$49,000 tax effect in 2011 and 2010, respectively) | 249                            | (91)      |
| Unrealized gain on derivative financial instruments (net of an \$18,000 tax effect in 2011 and 2010) (1)   | 34                             | 34        |
| (Accretion)/amortization of net unrecognized pension and postretirement items (net of a \$6,000 and \$10,000 tax effect in 2011 and 2010, respectively)                  | (12)                           | 19        |
| Reclassification adjustment for securities (gains) losses included in net income (net of \$800,000 tax expense in 2011 and \$778,000 tax benefit in 2010)                | (1,485)                        | 1,445     |
| Other comprehensive income   | \$ 2,354                       | \$ 14,334 |

- (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:

|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|---|-------------------|------------------------------|-------------------------------|----------------------------|
|   | (in thousands)    |                              |                               |                            |
| <b>Held to Maturity at March 31, 2011</b>   |                   |                              |                               |                            |
| U.S. Government sponsored agency securities | \$ 6,249          | \$ 0                         | \$ 0                          | \$ 6,249                   |
| State and municipal securities              | 346               | 0                            | 0                             | 346                        |
| Mortgage-backed securities                  | 698               | 54                           | 0                             | 752                        |
|   | \$ 7,293          | \$ 54                        | \$ 0                          | \$ 7,347                   |
| <b>Available for Sale at March 31, 2011</b> |                   |                              |                               |                            |
| Equity securities                           | \$ 130,887        | \$ 4,714                     | \$ (932)                      | \$ 134,669                 |
| U.S. Government securities                  | 1,650             | 0                            | 0                             | 1,650                      |
| U.S. Government sponsored agency securities | 4,856             | 148                          | (1)                           | 5,003                      |
| State and municipal securities              | 356,741           | 6,840                        | (1,030)                       | 362,551                    |
| Corporate debt securities                   | 135,996           | 5,051                        | (11,911)                      | 129,136                    |
| Collateralized mortgage obligations         | 957,520           | 18,768                       | (2,960)                       | 973,328                    |
| Mortgage-backed securities                  | 800,832           | 29,207                       | (2,648)                       | 827,391                    |
| Auction rate securities                     | 267,303           | 808                          | (11,698)                      | 256,413                    |

|              |           |             |              |
|--------------|-----------|-------------|--------------|
| \$ 2,655,785 | \$ 65,536 | \$ (31,180) | \$ 2,690,141 |
|--------------|-----------|-------------|--------------|

**Table of Contents**

| Held to Maturity at December 31, 2010          | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|--|----------------|------------------------|-------------------------|----------------------|
|  |                | (in thousands)         |                         |                      |
| U.S. Government sponsored agency securities    | \$ 6,339       | \$ 0                   | \$ (1)                  | \$ 6,338             |
| State and municipal securities                 | 346            | 0                      | 0                       | 346                  |
| Mortgage-backed securities                     | 1,066          | 68                     | 0                       | 1,134                |
|  | \$ 7,751       | \$ 68                  | \$ (1)                  | \$ 7,818             |
| <b>Available for Sale at December 31, 2010</b> |                |                        |                         |                      |
| 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 \$92.6 million and \$96.4 million as of March 31, 2011 and December 31, 2010, respectively.

The amortized cost and estimated fair values of debt securities as of March 31, 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             | \$ 6,416         | \$ 6,416             | \$ 77,576          | \$ 77,478            |
| Due from one year to five years     | 179              | 179                  | 58,758             | 61,101               |
| Due from five years to ten years    | 0                | 0                    | 139,597            | 142,771              |
| Due after ten years                 | 0                | 0                    | 490,615            | 473,403              |
|                                     | 6,595            | 6,595                | 766,546            | 754,753              |
| Collateralized mortgage obligations | 0                | 0                    | 957,520            | 973,328              |
| Mortgage-backed securities          | 698              | 752                  | 800,832            | 827,391              |
|                                     | \$ 7,293         | \$ 7,347             | \$ 2,524,898       | \$ 2,555,472         |

**Table of Contents**

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

|   | Gross<br>Realized<br>Gains | Gross<br>Realized<br>Losses | Other-than-<br>temporary<br>Impairment<br>Losses | Net Gains<br>(Losses) |
|---|----------------------------|-----------------------------|--|-----------------------|
|   | (in thousands)             |                             |  |                       |
| <b>Three months ended March 31, 2011:</b> |                            |                             |  |                       |
| Equity securities                         | \$ 5                       | \$ 0                        | \$ (297)   | \$ (292)              |
| Debt securities                           | 3,589                      | (18)                        | (994)  | 2,577                 |
| Total                                     | \$ 3,594                   | \$ (18)                     | \$ (1,291)                                       | \$ 2,285              |
| <b>Three months ended March 31, 2010:</b> |                            |                             |  |                       |
| Equity securities                         | \$ 836                     | \$ 0                        | \$ (824)   | \$ 12                 |
| Debt securities                           | 1,923                      | (5)                         | (4,153)  | (2,235)               |
| Total                                     | \$ 2,759                   | \$ (5)                      | \$ (4,977)                                       | \$ (2,223)            |

The \$297,000 and \$824,000 of other-than-temporary impairment charges for equity securities during the three months ended March 31, 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 March 31, 2011, after other-than-temporary impairment charges, the financial institutions stock portfolio had a cost basis of \$31.3 million and a fair value of \$35.1 million.

The \$994,000 and \$4.2 million of credit related other-than-temporary impairment charges for debt securities during the three months ended March 31, 2011 and 2010, respectively, 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.

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<br>March 31 |             |
|---|--------------------------------|-------------|
|   | 2011                           | 2010        |
|   | (in thousands)                 |             |
| Balance of cumulative credit losses on pooled trust preferred securities, beginning of period                               | \$ (27,560)                    | \$ (15,612) |
| Additions for credit losses recorded which were not previously recognized as components of earnings                         | (994)                          | (4,153)     |
| Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security | 37                             | 0           |
| Balance of cumulative credit losses on pooled trust preferred securities, end of period                                     | \$ (28,517)                    | \$ (19,765) |

**Table of Contents**

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, 2011:

|   | Less than 12 months     |                      | 12 months or longer     |                      | Total                   |                      |
|---|-------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|
|   | Estimated<br>Fair Value | Unrealized<br>Losses | Estimated<br>Fair Value | Unrealized<br>Losses | Estimated<br>Fair Value | Unrealized<br>Losses |
|   | (in thousands)          |                      |                         |                      |                         |                      |
| U.S. Government sponsored agency securities | \$ 0                    | \$ 0                 | \$ 199                  | \$ (1)               | \$ 199                  | \$ (1)               |
| State and municipal securities              | 49,600                  | (1,028)              | 401                     | (2)                  | 50,001                  | (1,030)              |
| Corporate debt securities                   | 4,735                   | (1,583)              | 47,828                  | (10,328)             | 52,563                  | (11,911)             |
| Collateralized mortgage obligations         | 295,073                 | (2,960)              | 0                       | 0                    | 295,073                 | (2,960)              |
| Mortgage-backed securities                  | 216,733                 | (2,648)              | 0                       | 0                    | 216,733                 | (2,648)              |
| Auction rate securities                     | 57,293                  | (1,438)              | 173,205                 | (10,260)             | 230,498                 | (11,698)             |
| <b>Total debt securities</b>                | <b>623,434</b>          | <b>(9,657)</b>       | <b>221,633</b>          | <b>(20,591)</b>      | <b>845,067</b>          | <b>(30,248)</b>      |
| Equity securities                           | 8,434                   | (685)                | 1,370                   | (247)                | 9,804                   | (932)                |
|   | <b>\$ 631,868</b>       | <b>\$ (10,342)</b>   | <b>\$ 223,003</b>       | <b>\$ (20,838)</b>   | <b>\$ 854,871</b>       | <b>\$ (31,180)</b>   |

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 March 31, 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.

As of March 31, 2011, approximately \$206 million, or 81%, 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 \$30 million, or 59%, of the student loans underlying the ARCs have principal payments which are guaranteed by the Federal government. In total, approximately \$226 million, or 88%, of the student loans underlying the ARCs have principal payments which are guaranteed by the Federal government. As of March 31, 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 March 31, 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 those investments to be other-than-temporarily impaired as of March 31, 2011.



**Table of Contents**

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

|  | March 31, 2011    |                         | December 31, 2010 |                         |
|--|-------------------|-------------------------|-------------------|-------------------------|
|  | Amortized<br>cost | Estimated<br>fair value | Amortized<br>cost | Estimated<br>fair value |
|  | (in thousands)    |                         |                   |                         |
| Single-issuer trust preferred securities                   | \$ 91,266         | \$ 84,925               | \$ 91,257         | \$ 81,789               |
| Subordinated debt  | 35,023            | 36,841                  | 34,995            | 35,915                  |
| Pooled trust preferred securities                          | 7,153             | 4,816                   | 8,295             | 4,528                   |
| Corporate debt securities issued by financial institutions | 133,442           | 126,582                 | 134,547           | 122,232                 |
| Other corporate debt securities                            | 2,554             | 2,554                   | 2,554             | 2,554                   |
| Available for sale corporate debt securities               | \$ 135,996        | \$ 129,136              | \$ 137,101        | \$ 124,786              |

The Corporation's investments in single-issuer trust preferred securities had an unrealized loss of \$6.3 million at March 31, 2011. The Corporation did not record any other-than-temporary impairment charges for single-issuer trust preferred securities during the three months ended March 31, 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 \$39.7 million at March 31, 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 \$10.3 million and an estimated fair value of \$8.1 million at March 31, 2011, were not rated by any ratings agency.

The Corporation holds ten pooled trust preferred securities. As of March 31, 2011, nine of these securities, with an amortized cost of \$6.4 million and an estimated fair value of \$4.1 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 39% as of March 31, 2011. The discounted cash flow modeling for pooled trust preferred securities held by the Corporation as of March 31, 2011 assumed, on average, an additional 16% expected deferral rate.

Based on management's evaluations, corporate debt securities with a fair value of \$129.1 million were not subject to any additional other-than-temporary impairment charges as of March 31, 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.

**Table of Contents****NOTE D Loans and Allowance for Credit Losses**Loans, net of unearned income

Loans, net of unearned income are summarized as follows:

|   | March 31,<br>2011    | December 31,<br>2010 |
|---|----------------------|----------------------|
|   | (in thousands)       |                      |
| Real-estate commercial mortgage                   | \$ 4,392,679         | \$ 4,375,980         |
| Commercial industrial, financial and agricultural | 3,692,668            | 3,704,384            |
| Real-estate home equity                           | 1,620,340            | 1,641,777            |
| Real-estate residential mortgage                  | 1,022,251            | 995,990              |
| Real-estate construction                          | 747,806              | 801,185              |
| Consumer  | 337,413              | 350,161              |
| Leasing and other                                 | 60,142               | 61,017               |
| Overdrafts  | 6,859                | 10,011               |
|   | <b>11,880,158</b>    | <b>11,940,505</b>    |
| Unearned income                                   | (6,950)              | (7,198)              |
|   | <b>\$ 11,873,208</b> | <b>\$ 11,933,307</b> |

Allowance for Credit Losses

Effective December 31, 2010, the Corporation adopted the provisions of the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (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. Effective March 31, 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 months ended March 31, 2011 for the Corporation.

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 preceding table. 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,<br>2011 | December 31,<br>2010 |
|--|-------------------|----------------------|
|  | (in thousands)    |                      |
| Allowance for loan losses                | \$ 270,272        | \$ 274,271           |
| Reserve for unfunded lending commitments | 884               | 1,227                |
|  | <b>\$ 271,156</b> | <b>\$ 275,498</b>    |

**Table of Contents**

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

|  | 2011           | 2010       |
|--|----------------|------------|
|  | (in thousands) |            |
| Balance at beginning of period             | \$ 275,498     | \$ 257,553 |
| Loans charged off                          | (45,529)       | (29,992)   |
| Recoveries of loans previously charged off | 3,187          | 1,693      |
| Net loans charged off                      | (42,342)       | (28,299)   |
| Provision for credit losses                | 38,000         | 40,000     |
| Balance at end of period                   | \$ 271,156     | \$ 269,254 |

The following table presents the activity in the allowance for loan losses for the three months ended March 31, 2011, by portfolio segment. Also presented below are loans, net of unearned income and their related allowance for loan losses, by portfolio segment as of March 31, 2011 and December 31, 2010:

|   | Real Estate -<br>Commercial<br>Mortgage | Commercial -<br>Industrial,<br>Financial and<br>Agricultural | Real Estate -<br>Home Equity | Real Estate -<br>Residential<br>Mortgage | Real<br>Estate -<br>Construction | Consumer | Leasing<br>and other<br>Overdrafts | Unallocated<br>(1) | Total      |
|---|---|--|------------------------------|--|----------------------------------|----------|------------------------------------|--------------------|------------|
|   | (in thousands)                          |  |                              |  |                                  |          |                                    |                    |            |
| 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                             | (10,047)                                | (13,336)   | (1,468)                      | (4,996)                                  | (13,894)                         | (1,291)  | (497)                              | 0                  | (45,529)   |
| Recoveries of loans<br>previously charged off | 1,535                                   | 391  | 1                            | 44                                       | 563                              | 309      | 344                                | 0                  | 3,187      |
| Net loans charged off                         | (8,512)                                 | (12,945)   | (1,467)                      | (4,952)                                  | (13,331)                         | (982)    | (153)                              | 0                  | (42,342)   |
| Provision for loan losses (2)                 | 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 |

**Allowance for loan losses  
at March 31, 2011:**

|  |           |            |          |           |           |          |          |           |            |
|--|-----------|------------|----------|-----------|-----------|----------|----------|-----------|------------|
| Evaluated collectively for<br>impairment under FASB<br>ASC Subtopic 450-20   | \$ 26,327 | \$ 36,709  | \$ 5,656 | \$ 15,288 | \$ 39,448 | \$ 4,736 | \$ 2,576 | \$ 33,500 | \$ 164,240 |
| Evaluated individually for<br>impairment under FASB<br>ASC Section 310-10-35 | 22,231    | 63,471     | 0        | 4,287     | 16,043    | 0        | 0        | NA        | 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:**

|  |              |              |              |              |            |            |           |    |               |
|--|--------------|--------------|--------------|--------------|------------|------------|-----------|----|---------------|
| Evaluated collectively for<br>impairment under FASB<br>ASC Subtopic 450-20   | \$ 4,224,868 | \$ 3,472,225 | \$ 1,620,340 | \$ 1,003,323 | \$ 629,359 | \$ 337,413 | \$ 60,051 | NA | \$ 11,347,579 |
| Evaluated individually for<br>impairment under FASB<br>ASC Section 310-10-35 | 167,811      | 220,443      | 0            | 18,928       | 118,447    | 0          | 0         | NA | 525,629       |
| Total  | \$ 4,392,679 | \$ 3,692,668 | \$ 1,620,340 | \$ 1,022,251 | \$ 747,806 | \$ 337,413 | \$ 60,051 | NA | \$ 11,873,208 |

Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

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 NA 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 NA \$ 11,359,701

Evaluated individually for impairment under FASB

ASC Section 310-10-35 158,320 234,609 0 39,730 140,947 0 0 NA 573,606

Total \$ 4,375,980 \$ 3,704,384 \$ 1,641,777 \$ 995,990 \$ 801,185 \$ 350,161 \$ 63,830 NA \$ 11,933,307

- (1) The Corporation maintains an unallocated allowance for factors or conditions that exist at the balance sheet date, but are not specifically identifiable. Management believes such an unallocated allowance, which was approximately 12% and 15% as of March 31, 2011 and December 31, 2010, respectively, was reasonable and appropriate as the estimates used in the allocation process are inherently imprecise.
- (2) Provision for loan losses is gross of a \$343,000 reduction in provision applied to unfunded commitments. The total provision for credit losses, comprised of allocations for both funded and unfunded loans, was \$38.0 million at March 31, 2011.

N/A Not applicable

Impaired Loans

A loan evaluated individually for impairment 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.

**Table of Contents**

The Corporation uses an internal risk rating process for its commercial loans, commercial mortgages and construction loans, consisting of nine general classifications ranging from excellent to loss. Generally, all non-accrual commercial loans, commercial mortgages and construction loans with risk ratings of substandard or lower are individually reviewed for impairment under FASB ASC Section 310-10-35. Certain accruing commercial loans, commercial mortgages and construction loans are also reviewed individually for impairment if the Corporation believes they meet the definition of impaired.

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. As of March 31, 2011 and December 31, 2010, substantially all of the Corporation's 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 and construction loans, 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, 2011 and December 31, 2010, respectively, approximately 57% and 52% 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.

The following table presents total impaired loans by class segment:

|  | March 31, 2011           |                     |                   |                             |   | December 31, 2010        |                     |                   |
|--|--------------------------|---------------------|-------------------|-----------------------------|---|--------------------------|---------------------|-------------------|
|  | Unpaid Principal Balance | Recorded Investment | Related Allowance | Average Recorded Investment | Interest Income Recognized (in thousands) | Unpaid Principal Balance | Recorded Investment | Related Allowance |
| <b>With no related allowance recorded:</b> |                          |                     |                   |                             |   |                          |                     |                   |
| Real estate - commercial mortgage          | \$ 70,166                | \$ 54,440           | N/A               | \$ 54,346                   | \$ 403                                    | \$ 68,583                | \$ 54,251           | N/A               |
| Commercial - secured                       | 31,985                   | 23,788              | N/A               | 25,767                      | 146                                       | 38,366                   | 27,745              | N/A               |
| Commercial - unsecured                     | 595                      | 469                 | N/A               | 528                         | 3   | 710                      | 587                 | N/A               |
| Real estate - residential mortgage (1)     | 6,505                    | 6,118               | N/A               | 13,665                      | 43  | 21,598                   | 21,212              | N/A               |
| Construction - commercial residential      | 61,884                   | 32,457              | N/A               | 32,406                      | 178                                       | 69,624                   | 32,354              | N/A               |
| Construction - commercial                  | 5,561                    | 3,692               | N/A               | 2,909                       | 20  | 5,637                    | 2,125               | N/A               |
|  | 176,696                  | 120,964             |                   | 129,621                     | 793                                       | 204,518                  | 138,274             |                   |
| <b>With a related allowance recorded:</b>  |                          |                     |                   |                             |   |                          |                     |                   |
| Real estate - commercial mortgage          | 123,071                  | 113,371             | \$ 22,231         | 108,720                     | 839                                       | 111,190                  | 104,069             | \$ 17,995         |
| Commercial - secured                       | 203,975                  | 191,226             | 59,240            | 194,450                     | 1,177                                     | 202,824                  | 197,674             | 64,922            |
| Commercial - unsecured                     | 4,989                    | 4,960               | 4,231             | 6,782                       | 31  | 8,681                    | 8,603               | 4,191             |
| Real estate - residential mortgage (1)     | 12,809                   | 12,810              | 4,287             | 15,664                      | 90  | 18,518                   | 18,518              | 5,950             |
| Construction - commercial residential      | 81,840                   | 79,138              | 15,239            | 91,482                      | 435                                       | 110,465                  | 103,826             | 22,155            |
| Construction - commercial                  | 3,160                    | 3,160               | 804               | 2,901                       | 17  | 2,642                    | 2,642               | 715               |
|  | 429,844                  | 404,665             | 106,032           | 419,999                     | 2,589                                     | 454,320                  | 435,332             | 115,928           |
| <b>Total</b>                               | <b>\$ 606,540</b>        | <b>\$ 525,629</b>   | <b>\$ 106,032</b> | <b>\$ 549,620</b>           | <b>\$ 3,382</b>                           | <b>\$ 658,838</b>        | <b>\$ 573,606</b>   | <b>\$ 115,928</b> |

- (1) Impaired residential mortgages represent loans modified under troubled debt restructurings in the current calendar year and/or not performing according to their modified terms.

## Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

N/A Not applicable.

As of March 31, 2011 and December 31, 2010 there were \$121.0 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.



Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

- (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.



**Table of Contents**

The following table presents non-performing assets:

|  | March 31,<br>2011 | December 31,<br>2010 |
|--|-------------------|----------------------|
|  | (in thousands)    |                      |
| Non-accrual loans                            | <b>\$ 280,270</b> | \$ 280,688           |
| Accruing loans greater than 90 days past due | <b>37,768</b>     | 48,084               |
| <b>Total non-performing loans</b>            | <b>318,038</b>    | 328,772              |
| Other real estate owned (OREO)               | <b>37,044</b>     | 32,959               |
| <b>Total non-performing assets</b>           | <b>\$ 355,082</b> | \$ 361,731           |

The following table presents loans whose terms were modified under troubled debt restructurings:

|   | March 31,<br>2011 | December 31,<br>2010 |
|---|-------------------|----------------------|
|   | (in thousands)    |                      |
| Real-estate residential mortgage                    | <b>\$ 39,558</b>  | \$ 37,826            |
| Real-estate commercial mortgage                     | <b>31,967</b>     | 18,778               |
| Real-estate construction                            | <b>5,440</b>      | 5,440                |
| Commercial industrial, financial and agricultural   | <b>4,074</b>      | 5,502                |
| Consumer and home equity                            | <b>260</b>        | 263                  |
| <b>Total accruing troubled debt restructurings</b>  | <b>81,299</b>     | 67,809               |
| <b>Non-accrual troubled debt restructurings (1)</b> | <b>56,128</b>     | 51,175               |
| <b>Total troubled debt restructurings</b>           | <b>\$ 137,427</b> | \$ 118,984           |

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

As of March 31, 2011 and December 31, 2010, there were \$2.7 million and \$1.6 million, respectively, of commitments to lend additional funds to borrowers whose loans were modified under troubled debt restructurings.

**Table of Contents**

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

|   | March 31, 2011            |                           |   |                 |   |                   |               |               |
|---|---------------------------|---------------------------|---|-----------------|---|-------------------|---------------|---------------|
|   | 31-59<br>Days Past<br>Due | 60-89<br>Days Past<br>Due | <sup>3</sup> 90 Days<br>Past Due<br>and<br>Accruing | Non-<br>accrual | Total <sup>3</sup> 90<br>Days<br>(in thousands) | Total Past<br>Due | Current       | Total         |
| Real estate - commercial mortgage                         | \$ 19,307                 | \$ 9,536                  | \$ 3,678  | \$ 93,627       | \$ 97,305                                       | \$ 126,148        | \$ 4,266,531  | \$ 4,392,679  |
| Commercial - secured                                      | 13,071                    | 4,425                     | 6,771   | 75,655          | 82,426  | 99,922            | 3,366,849     | 3,466,771     |
| Commercial - unsecured                                    | 839                       | 191                       | 159   | 3,465           | 3,624   | 4,654             | 221,243       | 225,897       |
| Total Commercial - industrial, financial and agricultural | 13,910                    | 4,616                     | 6,930   | 79,120          | 86,050  | 104,576           | 3,588,092     | 3,692,668     |
| Real estate - home equity                                 | 9,326                     | 2,690                     | 9,240   | 74              | 9,314   | 21,330            | 1,599,010     | 1,620,340     |
| Real estate - residential mortgage                        | 26,604                    | 8,882                     | 13,133  | 36,865          | 49,998  | 85,484            | 936,767       | 1,022,251     |
| Construction - commercial residential                     | 3,028                     | 439                       | 1,480   | 65,206          | 66,686  | 70,153            | 413,497       | 483,650       |
| Construction - commercial                                 | 0                         | 83                        | 0   | 4,040           | 4,040   | 4,123             | 206,630       | 210,753       |
| Construction - other                                      | 248                       | 388                       | 894   | 1,260           | 2,154   | 2,790             | 50,613        | 53,403        |
| Total Real estate - construction                          | 3,276                     | 910                       | 2,374   | 70,506          | 72,880  | 77,066            | 670,740       | 747,806       |
| Consumer - direct   | 1,920                     | 738                       | 2,060   | 15              | 2,075   | 4,733             | 35,967        | 40,700        |
| Consumer - indirect                                       | 1,307                     | 266                       | 159   | 0               | 159   | 1,732             | 165,265       | 166,997       |
| Consumer - other  | 41                        | 107                       | 24  | 0               | 24  | 172               | 129,544       | 129,716       |
| Total Consumer  | 3,268                     | 1,111                     | 2,243   | 15              | 2,258   | 6,637             | 330,776       | 337,413       |
| Leasing and other and overdrafts                          | 355                       | 255                       | 170   | 63              | 233   | 843               | 59,208        | 60,051        |
|   | \$ 76,046                 | \$ 28,000                 | \$ 37,768   | \$ 280,270      | \$ 318,038                                      | \$ 422,084        | \$ 11,451,124 | \$ 11,873,208 |
|   | 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       |

Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

|                                  |           |           |           |            |            |            |               |               |
|----------------------------------|-----------|-----------|-----------|------------|------------|------------|---------------|---------------|
| 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 |

**Table of Contents****NOTE E Stock-Based Compensation**

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

|   | <b>Three months ended</b> |        |
|---|---------------------------|--------|
|   | <b>March 31</b>           |        |
|   | <b>2011</b>               | 2010   |
|   | (in thousands)            |        |
| Stock-based compensation expense                    | <b>\$ 547</b>             | \$ 293 |
| Tax benefit   | <b>(136)</b>              | (62)   |
| <b>Stock-based compensation expense, net of tax</b> | <b>\$ 411</b>             | \$ 231 |

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 Option Plan, result in the acceleration of the vesting of both stock options and restricted stock. As of March 31, 2011, the Option Plan had 13.0 million shares reserved for future grants through 2013.

**NOTE F 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.

**Table of Contents**

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 months ended March 31:

|                                  | Pension Plan   |               | Postretirement Plan |              |
|----------------------------------|----------------|---------------|---------------------|--------------|
|                                  | 2011           | 2010          | 2011                | 2010         |
|                                  | (in thousands) |               |                     |              |
| Service cost (1)                 | \$ 15          | \$ 26         | \$ 51               | \$ 50        |
| Interest cost                    | 853            | 842           | 107                 | 110          |
| Expected return on plan assets   | (837)          | (802)         | (1)                 | (1)          |
| Net amortization (accretion)     | 72             | 119           | (91)                | (91)         |
| <b>Net periodic benefit cost</b> | <b>\$ 103</b>  | <b>\$ 185</b> | <b>\$ 66</b>        | <b>\$ 68</b> |

- (1) Pension Plan service cost for the three months ended March 31, 2011 and 2010 was related to administrative costs associated with the plan and was not due to the accrual of additional participant benefits.

**NOTE G 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:

|   | March 31, 2011  |                              | December 31, 2010 |                              |
|---|-----------------|------------------------------|-------------------|------------------------------|
|   | Notional Amount | Asset (Liability) Fair Value | Notional Amount   | Asset (Liability) Fair Value |
|   | (in thousands)  |                              |                   |                              |
| <b>Interest Rate Locks with Customers:</b>    |                 |                              |                   |                              |
| Positive fair values                          | \$ 136,163      | \$ 2,033                     | \$ 140,682        | \$ 777                       |
| Negative fair values                          | 8,093           | (96)                         | 50,527            | (760)                        |
| <b>Net Interest Rate Locks with Customers</b> |                 | <b>1,937</b>                 |                   | <b>17</b>                    |
| <b>Forward Commitments:</b>                   |                 |                              |                   |                              |
| Positive fair values                          | 22,100          | 56                           | 558,861           | 8,479                        |
| Negative fair values                          | 117,583         | (862)                        | 0                 | 0                            |
| <b>Net Forward Commitments</b>                |                 | <b>(806)</b>                 |                   | <b>8,479</b>                 |
|   |                 | <b>\$ 1,131</b>              |                   | <b>\$ 8,496</b>              |



**Table of Contents**

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

|                                    | Fair Value Gains (Losses) |          |
|------------------------------------|---------------------------|----------|
|                                    | 2011                      | 2010     |
|                                    | (in thousands)            |          |
| Interest rate locks with customers | \$ 1,920                  | \$ 1,022 |
| Forward commitments                | (9,285)                   | (1,298)  |
|                                    | \$ (7,365)                | \$ (276) |

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, gains and losses on the settlement of forward commitments, and net servicing income. Total mortgage banking income, including fair value adjustments on derivative financial instruments, was \$5.5 million and \$4.1 million for the three months ended March 31, 2011 and 2010, respectively.

**NOTE H 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,      | December 31, |
|------------------------------|----------------|--------------|
|                              | 2011           | 2010         |
|                              | (in thousands) |              |
| Commitments to extend credit | \$ 3,770,364   | \$ 3,780,824 |
| Standby letters of credit    | 477,212        | 489,097      |
| Commercial letters of credit | 29,266         | 31,388       |

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

Residential Lending

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

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





**Table of Contents**

As of March 31, 2011, the reserve for losses on the potential repurchase of loans with principal balances totaling approximately \$3.3 million was \$2.4 million. As of December 31, 2010, the reserve for losses on the potential repurchase of loans with principal balances totaling approximately \$8.1 million was \$3.3 million.

Management believes that the reserves recorded as of March 31, 2011 are adequate for the known potential repurchases. However, continued declines in collateral values or the identification of additional loans to be repurchased could necessitate additional reserves in the future.

**Other Contingencies**

From time to time, the Corporation and its subsidiary banks may be defendants in legal proceedings relating to the conduct of their business. Most of such legal proceedings are a normal part of the banking business and, in management's opinion, the financial position and results of operations and cash flows of the Corporation would not be affected materially by the outcome of such legal proceedings.

**NOTE I 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 performance of its mortgage banking activities in its consolidated financial statements. Derivative financial instruments related to these activities are also recorded at fair value, as noted within Note G, 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,<br>2011 | December 31,<br>2010 |
|------------|-------------------|----------------------|
|            | (in thousands)    |                      |
| Cost       | \$ 30,331         | \$ 84,604            |
| Fair value | 30,903            | 83,940               |

During the three months ended March 31, 2011 and 2010, the Corporation recorded gains related to changes in fair values of mortgage loans held for sale of \$1.2 million and \$391,000, respectively.

**NOTE J 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.

**Table of Contents**

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

In January 2010, the FASB issued ASC Update No. 2010-06, Improving Disclosures About Fair Value Measurements (ASC Update 2010-06). Among other provisions which were adopted by the Corporation on March 31, 2010, ASC Update 2010-06 also requires companies to reconcile changes in Level 3 assets and liabilities by separately providing information about Level 3 purchases, sales, issuances and settlements on a gross basis. This provision of ASC Update 2010-06 was effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years, or March 31, 2011 for the Corporation. The adoption of this provision did not impact the Corporation's fair value measurement disclosures.

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

The Corporation's assets and liabilities measured at fair value on a recurring basis and reported on the consolidated balance sheets were as follows:

|   | March 31, 2011   |                     |                   | Total               |
|---|------------------|---------------------|-------------------|---------------------|
|   | Level 1          | Level 2             | Level 3           |                     |
|   | (in thousands)   |                     |                   |                     |
| Mortgage loans held for sale                | \$ 0             | \$ 30,903           | \$ 0              | \$ 30,903           |
| Available for sale investment securities:   |                  |                     |                   |                     |
| Equity securities                           | 42,116           | 0                   | 0                 | 42,116              |
| U.S. Government securities                  | 0                | 1,650               | 0                 | 1,650               |
| U.S. Government sponsored agency securities | 0                | 5,003               | 0                 | 5,003               |
| State and municipal securities              | 0                | 362,551             | 0                 | 362,551             |
| Corporate debt securities                   | 0                | 116,226             | 12,910            | 129,136             |
| Collateralized mortgage obligations         | 0                | 973,328             | 0                 | 973,328             |
| Mortgage-backed securities                  | 0                | 827,391             | 0                 | 827,391             |
| Auction rate securities                     | 0                | 0                   | 256,413           | 256,413             |
| <b>Total available for sale investments</b> | <b>42,116</b>    | <b>2,286,149</b>    | <b>269,323</b>    | <b>2,597,588</b>    |
| Other financial assets                      | 13,899           | 2,089               | 0                 | 15,988              |
| <b>Total assets</b>                         | <b>\$ 56,015</b> | <b>\$ 2,319,141</b> | <b>\$ 269,323</b> | <b>\$ 2,644,479</b> |
| Other financial liabilities                 | \$ 13,899        | \$ 958              | \$ 0              | \$ 14,857           |

|   | December 31, 2010 |                     |                   |                     |
|---|-------------------|---------------------|-------------------|---------------------|
|   | Level 1           | Level 2             | Level 3           |                     |
| Mortgage loans held for sale                | \$ 0              | \$ 83,940           | \$ 0              | \$ 83,940           |
| Available for sale investment securities:   |                   |                     |                   |                     |
| Equity securities                           | 40,070            | 0                   | 0                 | 40,070              |
| U.S. Government securities                  | 0                 | 1,649               | 0                 | 1,649               |
| U.S. Government sponsored agency securities | 0                 | 5,058               | 0                 | 5,058               |
| State and municipal securities              | 0                 | 349,563             | 0                 | 349,563             |
| Corporate debt securities                   | 0                 | 111,675             | 13,111            | 124,786             |
| Collateralized mortgage obligations         | 0                 | 1,104,058           | 0                 | 1,104,058           |
| Mortgage-backed securities                  | 0                 | 871,472             | 0                 | 871,472             |
| Auction rate securities                     | 0                 | 0                   | 260,679           | 260,679             |
| <b>Total available for sale investments</b> | <b>40,070</b>     | <b>2,443,475</b>    | <b>273,790</b>    | <b>2,757,335</b>    |
| Other financial assets                      | 13,582            | 9,256               | 0                 | 22,838              |
| <b>Total assets</b>                         | <b>\$ 53,652</b>  | <b>\$ 2,536,671</b> | <b>\$ 273,790</b> | <b>\$ 2,864,113</b> |

Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

|                             |           |        |      |           |
|-----------------------------|-----------|--------|------|-----------|
| Other financial liabilities | \$ 13,582 | \$ 760 | \$ 0 | \$ 14,342 |
|-----------------------------|-----------|--------|------|-----------|

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

---

**Table of Contents**

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, 2011 and December 31, 2010 were measured as the price that secondary market investors were offering for loans with similar characteristics.

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

Equity securities Equity securities consist of stocks of financial institutions (\$35.1 million at March 31, 2011 and \$33.1 million at December 31, 2010) and other equity investments (\$7.0 million at March 31, 2011 and December 31, 2010). 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 (\$92.6 million at March 31, 2011 and \$96.4 million at December 31, 2010) have been excluded from the above table.

U.S. Government securities/U.S. Government sponsored agency securities/State and municipal securities/Collateralized mortgage obligations/Mortgage-backed securities These debt securities are classified as Level 2 investments. Fair values are determined by a third-party pricing service using both quoted prices for similar assets, when available, and model-based valuation techniques that derive fair value based on market-corroborated data, such as instruments with similar prepayment speeds and default interest rates. The pricing data and market quotes the Corporation obtains from outside sources are reviewed internally for reasonableness.

Corporate debt securities This category includes subordinated debt issued by financial institutions (\$36.8 million at March 31, 2011 and \$35.9 million at December 31, 2010), single-issuer trust preferred securities issued by financial institutions (\$84.9 million at March 31, 2011 and \$81.8 million at December 31, 2010), pooled trust preferred securities issued by financial institutions (\$4.8 million at March 31, 2011 and \$4.5 million at December 31, 2010) and other corporate debt issued by non-financial institutions (\$2.6 million at March 31, 2011 and December 31, 2010).

Classified as Level 2 investments are the Corporation's subordinated debt, other corporate debt issued by non-financial institutions and \$76.8 million and \$73.2 million of single-issuer trust preferred securities held at March 31, 2011 and December 31, 2010, respectively. These corporate debt securities are measured at fair value by a third-party pricing service using both quoted prices for similar assets, when available, and model-based valuation techniques that derive fair value based on market-corroborated data, such as instruments with similar prepayment speeds and default interest rates. As with the debt securities described above, an active market presently exists for securities similar to these corporate debt security holdings.

Classified as Level 3 assets are the Corporation's investments in pooled trust preferred securities and certain single-issuer trust preferred securities (\$8.1 million at March 31, 2011 and \$8.6 million at December 31, 2010). The fair values of these securities were determined based on quotes provided by third-party brokers who determined fair values based predominantly on internal valuation models which were not indicative prices or binding offers. The Corporation's third-party pricing service cannot derive fair values for these securities primarily due to inactive market transactions for similar investments.

Auction rate securities Due to their illiquidity, ARCs are classified as Level 3 investments and are valued through the use of an expected cash flows model prepared by a third-party valuation expert. The assumptions used in preparing the expected cash flows model include

**Table of Contents**

estimates for coupon rates, time to maturity and market rates of return. The expected cash flows model the Corporation obtains from the outside source is reviewed internally for reasonableness.

**Other financial assets** Included within this asset category are: Level 1 assets, consisting of mutual funds that are held in trust for employee deferred compensation plans and measured at fair value based on quoted prices for identical securities in active markets; and Level 2 assets, representing the fair value of mortgage banking derivatives in the form of interest rate locks and forward commitments with secondary market investors. The fair value of the Corporation's interest rate locks and forward commitments are determined as the amounts that would be required to settle the derivative financial instruments at the balance sheet date. See Note G, 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, 2011 and 2010:

|   | 2011                                     |  |                    |
|---|--|--|--------------------|
|   | Available for Sale Investment Securities |  |                    |
|   | Pooled Trust<br>Preferred<br>Securities  | Single-issuer<br>Trust Preferred<br>Securities<br>(in thousands) | ARC<br>Investments |
| Balance, December 31, 2010                    | \$ 4,528                                 | \$ 8,583   | \$ 260,679         |
| Transfer from Level 3 to Level 2 (1)          |  | (800)  |                    |
| Realized adjustment to fair value (2)         | (994)                                    | 0  | 0                  |
| Unrealized adjustment to fair value (3)       | 1,430                                    | 312  | (5,219)            |
| Redemptions                                   | (147)                                    | 0  | (227)              |
| (Premium amortization)/discount accretion (4) | (1)                                      | (1)  | 1,180              |
| <b>Balance, March 31, 2011</b>                | <b>\$ 4,816</b>                          | <b>\$ 8,094</b>  | <b>\$ 256,413</b>  |
|   |  | 2010   |                    |
| Balance, December 31, 2009                    | \$ 4,979                                 | \$ 6,981   | \$ 289,203         |
| Realized adjustment to fair value (2)         | (4,153)                                  | 0  | 0                  |
| Unrealized adjustment to fair value (3)       | 4,079                                    | 154  | (1,266)            |
| Redemptions                                   | 0  | 0  | (1,140)            |
| (Premium amortization)/discount accretion (4) | (5)                                      | 1  | 1,336              |
| <b>Balance, March 31, 2010</b>                | <b>\$ 4,900</b>                          | <b>\$ 7,136</b>  | <b>\$ 288,133</b>  |

- (1) During the three months ended March 31, 2011, one single-issuer trust preferred security with a fair value of \$800,000 as of December 31, 2010 was reclassified as a Level 2 asset. As of March 31, 2011 the fair value of this security was measured at fair value by a third-party pricing service using both quoted prices for similar assets and model-based valuation techniques that derived fair value based on market-corroborated data, such as instruments with similar prepayment speeds and default interest rates. As of December 31, 2010, the fair value of this security was determined based on quotes provided by third-party brokers who determined its fair value based predominantly on an internal valuation model.
- (2) For pooled trust preferred securities, realized adjustments to fair value represent credit related other-than-temporary impairment charges that were recorded as a reduction to investment securities gains on the consolidated statements of income.
- (3)

## Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

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

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

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

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

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

|                                  | March 31, 2011 |             |                           | Total             |
|----------------------------------|----------------|-------------|---------------------------|-------------------|
|                                  | Level 1        | Level 2     | Level 3<br>(in thousands) |                   |
| Net loans                        | \$ 0           | \$ 0        | \$ 419,597                | \$ 419,597        |
| Other financial assets           | 0              | 0           | 67,554                    | 67,554            |
| <b>Total assets</b>              | <b>\$ 0</b>    | <b>\$ 0</b> | <b>\$ 487,151</b>         | <b>\$ 487,151</b> |
| Reserve for unfunded commitments | \$ 0           | \$ 0        | \$ 884                    | \$ 884            |
|                                  |                |             | December 31, 2010         |                   |
| Net loans                        | \$ 0           | \$ 0        | \$ 457,678                | \$ 457,678        |
| Other financial assets           | 0              | 0           | 62,109                    | 62,109            |
| <b>Total assets</b>              | <b>\$ 0</b>    | <b>\$ 0</b> | <b>\$ 519,787</b>         | <b>\$ 519,787</b> |
| Reserve for unfunded commitments | \$ 0           | \$ 0        | \$ 1,227                  | \$ 1,227          |

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 individually evaluated for impairment under FASB ASC Section 310-10-35 and have been classified as Level 3 assets. Impaired loans are generally measured at the fair value of their underlying collateral. An allowance for loan losses is allocated to an impaired loan if its carrying value exceeds the estimated fair value. The amount shown is the balance of impaired loans, net of the related allowance for loan losses. See Note D, "Loans and Allowance for Credit Losses" for additional details.

**Other financial assets** This category includes OREO (\$37.0 million at March 31, 2011 and \$33.0 million at December 31, 2010) and mortgage servicing rights (MSRs), net of the MSR valuation reserve (\$30.6 million at March 31, 2011 and \$29.1 million at December 31, 2010), both classified as Level 3 assets.

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

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

## Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

Reserve for unfunded commitments This liability, included as a Level 3 liability above, represents management's estimate of losses associated with unused commitments to extend credit on loans which are impaired under FASB ASC Section 310-10-35. The reserve for unfunded commitments represents the shortfall between the estimated commitment to extend credit on



**Table of Contents**

impaired loans in comparison to the fair value of their underlying collateral. See Note D, Loans and Allowance for Credit Losses for additional details.

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, 2011 and December 31, 2010. 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. Further, certain financial instruments and all non-financial instruments not measured at fair value on the Corporation's consolidated balance sheets are excluded. The aggregate fair value amounts presented do not necessarily represent management's estimate of the underlying value of the Corporation.

| FINANCIAL ASSETS                                   | March 31, 2011 |                      | December 31, 2010 |                      |
|--|----------------|----------------------|-------------------|----------------------|
|  | Book Value     | Estimated Fair Value | Book Value        | Estimated Fair Value |
|  | (in thousands) |                      |                   |                      |
| Cash and due from banks                            | \$ 265,353     | \$ 265,353           | \$ 198,954        | \$ 198,954           |
| Interest-bearing deposits with other banks         | 83,293         | 83,293               | 33,297            | 33,297               |
| Loans held for sale (1)                            | 30,903         | 30,903               | 83,940            | 83,940               |
| Securities held to maturity                        | 7,293          | 7,347                | 7,751             | 7,818                |
| Securities available for sale (1)                  | 2,690,141      | 2,690,141            | 2,853,733         | 2,853,733            |
| Loans, net of unearned income (1)                  | 11,873,208     | 11,903,824           | 11,933,307        | 11,909,539           |
| Accrued interest receivable                        | 52,878         | 52,878               | 53,841            | 53,841               |
| Other financial assets (1)                         | 131,790        | 131,790              | 230,044           | 230,044              |
| <b>FINANCIAL LIABILITIES</b>                       |                |                      |                   |                      |
| Demand and savings deposits                        | \$ 7,968,681   | \$ 7,968,681         | \$ 7,758,613      | \$ 7,758,613         |
| Time deposits                                      | 4,439,929      | 4,482,247            | 4,629,968         | 4,677,494            |
| Short-term borrowings                              | 414,398        | 414,398              | 674,077           | 674,077              |
| Accrued interest payable                           | 34,392         | 34,392               | 33,333            | 33,333               |
| Other financial liabilities (1)                    | 66,763         | 66,763               | 80,551            | 80,551               |
| Federal Home Loan Bank advances and long-term debt | 1,035,689      | 1,003,197            | 1,119,450         | 1,077,724            |

(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



**Table of Contents**

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, 2011 and December 31, 2010 were based on quoted market prices, broker quotes or dealer quotes.

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

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

**NOTE K New Accounting Standard**

In April 2011, the FASB issued ASC Update 2011-02, A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring (ASC Update 2011-02). ASC Update 2011-02 provides clarifying guidance for creditors when evaluating whether a restructuring constitutes a troubled debt restructuring. ASC Update 2011-02 provides additional guidance for when a creditor has granted a concession and whether a debtor is experiencing financial difficulty. This standards update is effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. For the Corporation, this standards update is effective in connection with its September 30, 2011 interim filing on Form 10-Q. The adoption of ASC Update 2011-02 is not expected to materially impact the Corporation's financial statements.

**NOTE L Reclassifications**

Certain amounts in the 2010 consolidated financial statements and notes have been reclassified to conform to the 2011 presentation.

## **Table of Contents**

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

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

#### **FORWARD-LOOKING STATEMENTS**

The Corporation has made, and may continue to make, certain forward-looking statements with respect to its financial conditions and results of operations. Many factors could affect future financial results including, without limitation: the impact of adverse changes in the economy and real estate markets; increases in non-performing assets which may reduce the level of the 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 rate-sensitive assets to rate-sensitive liabilities; salaries and employee benefits and other expenses; amortization of intangible assets; goodwill impairment; capital and liquidity strategies, and other financial and business matters for future periods. Do not unduly rely on forward-looking statements. Forward-looking statements can be identified by the use of words such as may, should, will, could, estimates, predicts, potential, continue, anticipates, believes, future, 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 on loans, operating expenses and income taxes.

**Table of Contents**

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           |           |
|  | 2011               | 2010      |
| Net income available to common shareholders (in thousands) | \$ 33,785          | \$ 22,415 |
| Income before income taxes (in thousands)                  | \$ 46,160          | \$ 36,747 |
| Diluted net income per share (1)                           | \$ 0.17            | \$ 0.13   |
| Return on average assets                                   | 0.85%              | 0.68%     |
| Return on average common equity (2)                        | 7.21%              | 5.73%     |
| Return on average tangible common equity (3)               | 10.36%             | 9.13%     |
| Net interest margin (4)                                    | 3.91%              | 3.78%     |
| Non-performing assets to total assets                      | 2.22%              | 1.90%     |
| Net charge-offs to average loans (annualized)              | 1.42%              | 0.95%     |

- (1) Net income available to common shareholders divided by diluted weighted average common shares outstanding.
- (2) Net income available to common shareholders divided by average common shareholders' equity.
- (3) Net income available to common shareholders, 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 2011 increased \$9.4 million, or 25.6%, in comparison to the first quarter of 2010, due to the net effect of the following significant items:

*Increase in investment securities gains (losses) of \$4.5 million.* The increase in investment securities gains (losses) was primarily due to reduced other-than-temporary impairment charges of \$3.2 million and \$527,000 for pooled trust preferred securities issued by financial institutions and stocks of financial institutions, respectively. The performance of financial institutions has generally improved, resulting in lower charges for these debt and equity investments.

*Increase in other income, excluding investment securities gains (losses), of \$3.4 million, or 8.4%.* During the first quarter of 2011, the Corporation experienced growth in a number of other income categories, including mortgage banking income and investment management and trust services. The increase in mortgage banking income was due to an increase in volumes, while the improvement in investment management and trust services income resulted from improved market conditions and the Corporation's focus on increasing recurring revenues in the brokerage business. Also contributing to the growth in other income was increased debit card fees, merchant fees and foreign currency processing revenues, all resulting from higher transaction volumes.

*Decrease in the provision for credit losses of \$2.0 million, or 5.0%.* During the first quarter of 2011, the Corporation experienced improved credit quality metrics as the level of non-performing loans and charge-offs of loans decreased in comparison to the prior quarter-end. While these metrics were higher than the first quarter of 2010, allocations of the allowance for credit losses were sufficient.

*Increase in net interest income of \$1.1 million, or 0.8%.* The increase in net interest income was a result of a 13 basis point increase in the net interest margin as funding costs decreased due to the repricing of time deposits and long-term debt, in addition to a change in the funding mix to lower cost demand and savings deposits. The positive impact of the increase in net interest margin was partially offset by a \$376.6 million, or 2.5%, decrease in interest-earning assets.

## Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

*Partially offsetting the impact of the above items, other expenses increased \$1.5 million. While the Corporation continues to control discretionary spending, certain expense categories increased, including salaries and employee benefits and marketing expenses. The increase in salaries and*

**Table of Contents**

employee benefits was primarily a result of normal merit increases, higher incentive compensation expense and increased stock-based compensation expense. The increase in marketing expense was primarily due to an increase in promotional campaigns. As a result of the continued growth in earnings, the Corporation increased its dividend to common shareholders to \$0.04 cents per share, a one cent, or 33.3%, increase in comparison to both the first and fourth quarters of 2010.

Quarter Ended March 31, 2011 compared to the Quarter Ended March 31, 2010

Net Interest Income

FTE net interest income increased \$1.1 million, or 0.8%, from \$142.4 million in the first quarter of 2010 to \$143.5 million in the first quarter of 2011. This increase was the net result of a \$14.8 million decrease in FTE interest income and a \$15.9 million decrease in interest expense.

**Table of Contents**

The following table provides a comparative average balance sheet and net interest income analysis for the first quarter of 2011 as compared to the same period in 2010. 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 |              |            |                      |              |            |
|--|-----------------------------|--------------|------------|----------------------|--------------|------------|
|  | 2011                        |              |            | 2010                 |              |            |
| ASSETS   | Average Balance             | Interest (1) | Yield/Rate | Average Balance      | Interest (1) | Yield/Rate |
| <b>Interest-earning assets:</b>                  |                             |              |            |                      |              |            |
| Loans, net of unearned income (2)                | \$ 11,921,442               | \$ 151,686   | 5.15%      | \$ 11,971,786        | \$ 159,424   | 5.39%      |
| Taxable investment securities (3)                | 2,331,323                   | 21,807       | 3.75       | 2,663,127            | 28,149       | 4.23       |
| Tax-exempt investment securities (3)             | 344,457                     | 4,885        | 5.67       | 387,971              | 5,531        | 5.70       |
| Equity securities (3)                            | 132,841                     | 752          | 2.28       | 141,896              | 809          | 2.29       |
| Total investment securities                      | 2,808,621                   | 27,444       | 3.91       | 3,192,994            | 34,489       | 4.33       |
| Loans held for sale                              | 45,418                      | 500          | 4.41       | 42,938               | 556          | 5.18       |
| Other interest-earning assets                    | 66,381                      | 33           | 0.20       | 10,793               | 25           | 0.95       |
| Total interest-earning assets                    | 14,841,862                  | 179,663      | 4.90%      | 15,218,511           | 194,494      | 5.17%      |
| <b>Noninterest-earning assets:</b>               |                             |              |            |                      |              |            |
| Cash and due from banks                          | 260,395                     |              |            | 263,147              |              |            |
| Premises and equipment                           | 207,389                     |              |            | 203,584              |              |            |
| Other assets                                     | 1,102,543                   |              |            | 1,086,635            |              |            |
| Less: Allowance for loan losses                  | (282,017)                   |              |            | (273,426)            |              |            |
| <i>Total Assets</i>                              | <b>\$ 16,130,172</b>        |              |            | <b>\$ 16,498,451</b> |              |            |
| <b>LIABILITIES AND EQUITY</b>                    |                             |              |            |                      |              |            |
| <b>Interest-bearing liabilities:</b>             |                             |              |            |                      |              |            |
| Demand deposits                                  | \$ 2,322,098                | \$ 1,436     | 0.25%      | \$ 1,981,653         | \$ 1,840     | 0.38%      |
| Savings deposits                                 | 3,282,790                   | 3,358        | 0.41       | 2,847,427            | 5,201        | 0.74       |
| Time deposits                                    | 4,532,528                   | 18,492       | 1.65       | 5,202,975            | 26,697       | 2.08       |
| Total interest-bearing deposits                  | 10,137,416                  | 23,286       | 0.93       | 10,032,055           | 33,738       | 1.36       |
| Short-term borrowings                            | 622,662                     | 254          | 0.16       | 871,981              | 549          | 0.25       |
| FHLB advances and long-term debt                 | 1,061,523                   | 12,591       | 4.78       | 1,484,236            | 17,792       | 4.86       |
| Total interest-bearing liabilities               | 11,821,601                  | 36,131       | 1.24%      | 12,388,272           | 52,079       | 1.70%      |
| <b>Noninterest-bearing liabilities:</b>          |                             |              |            |                      |              |            |
| Demand deposits                                  | 2,238,200                   |              |            | 1,973,146            |              |            |
| Other  | 170,930                     |              |            | 180,528              |              |            |
| <i>Total Liabilities</i>                         | <b>14,230,731</b>           |              |            | <b>14,541,946</b>    |              |            |
| Shareholders equity                              | 1,899,441                   |              |            | 1,956,505            |              |            |
| <i>Total Liabilities and Shareholders Equity</i> | <b>\$ 16,130,172</b>        |              |            | <b>\$ 16,498,451</b> |              |            |
| Net interest income/net interest margin (FTE)    |                             | 143,532      | 3.91%      |                      | 142,415      | 3.78%      |
| Tax equivalent adjustment                        |                             | (3,969)      |            |                      | (3,906)      |            |
| Net interest income                              |                             | \$ 139,563   |            |                      | \$ 138,509   |            |



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

**Table of Contents**

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

|                                  | 2011 vs. 2010     |   |                    |
|----------------------------------|-------------------|---|--------------------|
|                                  | Volume            | Increase (decrease) due to change in Rate |                    |
|                                  |                   | (in thousands)                            |                    |
|                                  |                   |   | Net                |
| <b>Interest income on:</b>       |                   |   |                    |
| Loans, net of unearned income    | \$ (668)          | \$ (7,070)                                | \$ (7,738)         |
| Taxable investment securities    | (3,319)           | (3,023)                                   | (6,342)            |
| Tax-exempt investment securities | (620)             | (26)                                      | (646)              |
| Equity securities                | (54)              | (3)                                       | (57)               |
| Loans held for sale              | 30                | (86)                                      | (56)               |
| Other interest-earning assets    | 42                | (34)                                      | 8                  |
| <i>Total interest income</i>     | <b>\$ (4,589)</b> | <b>\$ (10,242)</b>                        | <b>\$ (14,831)</b> |
| <b>Interest expense on:</b>      |                   |   |                    |
| Demand deposits                  | \$ 288            | \$ (692)                                  | \$ (404)           |
| Savings deposits                 | 703               | (2,546)                                   | (1,843)            |
| Time deposits                    | (3,172)           | (5,033)                                   | (8,205)            |
| Short-term borrowings            | (127)             | (168)                                     | (295)              |
| FHLB advances and long-term debt | (4,918)           | (283)                                     | (5,201)            |
| <i>Total interest expense</i>    | <b>\$ (7,226)</b> | <b>\$ (8,722)</b>                         | <b>\$ (15,948)</b> |

FTE interest income decreased \$14.8 million, or 7.6%. A 27 basis point, or 5.2%, decrease in average yields resulted in a \$10.2 million decrease in interest income. The remaining \$4.6 million decrease was due to a \$376.6 million, or 2.5%, decrease in average interest-earning assets.

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

|   | Three months ended     |                      | Increase (decrease) |               |
|---|------------------------|----------------------|---------------------|---------------|
|   | 2011                   | 2010                 | \$                  | %             |
|   | March 31               |                      |                     |               |
|   | (dollars in thousands) |                      |                     |               |
| Real estate commercial mortgage                   | \$ 4,385,072           | \$ 4,306,270         | \$ 78,802           | 1.8%          |
| Commercial industrial, financial and agricultural | 3,707,081              | 3,686,405            | 20,676              | 0.6           |
| Real estate home equity                           | 1,628,550              | 1,640,912            | (12,362)            | (0.8)         |
| Real estate residential mortgage                  | 1,017,439              | 940,652              | 76,787              | 8.2           |
| Real estate construction                          | 779,556                | 962,175              | (182,619)           | (19.0)        |
| Consumer  | 341,247                | 362,212              | (20,965)            | (5.8)         |
| Leasing and other                                 | 62,497                 | 73,160               | (10,663)            | (14.6)        |
| <i>Total</i>                                      | <b>\$ 11,921,442</b>   | <b>\$ 11,971,786</b> | <b>\$ (50,344)</b>  | <b>(0.4%)</b> |

Geographically, the \$78.8 million, or 1.8%, increase in commercial mortgages was throughout all of the Corporation's markets, with increases in Pennsylvania (\$39.1 million, or 1.7%), New Jersey (\$13.9 million, or 1.1%), Virginia (\$12.3 million, or 3.7%), Maryland (\$9.5 million, or 2.5%) and Delaware (\$4.1 million, or 3.2%).

The \$20.7 million increase in commercial loans was due to a \$75.9 million, or 3.1%, increase in the Corporation's Pennsylvania market, partially offset by declines in Maryland (\$26.2 million, or 7.1%), Virginia (\$18.1 million, or 6.4%) and New Jersey (\$10.6 million, or 1.9%).



**Table of Contents**

The \$76.8 million, or 8.2%, increase in residential mortgages was largely due to the Corporation's retention in portfolio of certain 10 and 15 year fixed rate mortgages and certain adjustable rate mortgages. The majority of these loans were underwritten to the standards required for sale to third-party investors, however, the Corporation elected to retain them in portfolio to partially mitigate the impact of decreases in average interest-earning assets.

The \$182.6 million, or 19.0%, decrease in construction loans was primarily due to efforts to reduce credit exposure in this portfolio as payoffs exceeded new loan originations in recent quarters. Also contributing to the decrease were \$59.8 million of charge-offs recorded since March 31, 2010. Geographically, the decline in construction loans was attributable to the Corporation's Maryland (\$100.3 million, or 41.3%), Virginia (\$67.7 million, or 28.2%) and New Jersey (\$47.7 million, or 27.4%) markets, partially offset by increases in the Pennsylvania (\$27.5 million, or 9.5%) and Delaware (\$5.5 million, or 36.3%) markets.

The \$21.0 million, or 5.8%, decrease in consumer loans occurred throughout most of the Corporation's markets, with \$9.5 million of the decrease attributable to the Corporation's indirect automobile portfolio and \$8.1 million of the decrease related to direct consumer loans.

The average yield on loans decreased 24 basis points, or 4.5%, from 5.39% in 2010 to 5.15% in 2011, despite the average prime rate remaining at 3.25% for the first quarters of both 2011 and 2010. The decrease in average yields on loans was attributable to repayments of higher-yielding loans and lower rates on new loans originated.

Average investments decreased \$384.4 million, or 12.0%, due largely to sales and maturities of mortgage-backed securities, collateralized mortgage obligations and state and municipal securities. During the first quarter of 2011, proceeds from the sales and maturities of securities were not fully reinvested into the portfolio because current rates on many investment options were not attractive. The average yield on investments decreased 42 basis points, or 9.7%, from 4.33% in 2010 to 3.91% in 2011, as the reinvestment of cash flows and incremental purchases of taxable investment securities were at yields lower than the overall portfolio yield.

Interest expense decreased \$15.9 million, or 30.6%, to \$36.1 million in the first quarter of 2011 from \$52.1 million in the first quarter of 2010. Interest expense decreased \$8.7 million as a result of a 46 basis point, or 27.1%, decrease in the average cost of interest-bearing liabilities. Interest expense decreased an additional \$7.2 million as a result of a \$566.7 million, or 4.6%, decline in average interest-bearing liabilities.

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

|                                 | Three months ended     |               | Increase (decrease) |        |
|---------------------------------|------------------------|---------------|---------------------|--------|
|                                 | 2011                   | 2010          | \$                  | %      |
|                                 | March 31               |               |                     |        |
|                                 | (dollars in thousands) |               |                     |        |
| Noninterest-bearing demand      | \$ 2,238,200           | \$ 1,973,146  | \$ 265,054          | 13.4%  |
| Interest-bearing demand         | 2,322,098              | 1,981,653     | 340,445             | 17.2   |
| Savings                         | 3,282,790              | 2,847,427     | 435,363             | 15.3   |
| <i>Total demand and savings</i> | <b>7,843,088</b>       | 6,802,226     | 1,040,862           | 15.3   |
| Time deposits                   | 4,532,528              | 5,202,975     | (670,447)           | (12.9) |
| <i>Total deposits</i>           | <b>\$ 12,375,616</b>   | \$ 12,005,201 | \$ 370,415          | 3.1%   |

Total demand and savings accounts increased \$1.0 billion, or 15.3%. The increase in noninterest-bearing accounts was primarily due to a \$220.6 million, or 16.3%, increase in business account balances due, in part, to businesses maintaining higher balances to offset service fees, as well as a migration from the Corporation's cash management products due to low interest rates. The increase in interest-bearing



**Table of Contents**Provision for Credit Losses and Allowance for Credit Losses

The following table presents the activity in the allowance for credit losses:

|  | Three months ended<br>March 31, |               |
|--|---------------------------------|---------------|
|  | 2011                            | 2010          |
|  | (dollars in thousands)          |               |
| Loans, net of unearned income outstanding at end of period           | <b>\$ 11,873,208</b>            | \$ 11,964,840 |
| Daily average balance of loans, net of unearned income               | <b>\$ 11,921,442</b>            | \$ 11,971,786 |
| <i>Balance of allowance for credit losses at beginning of period</i> | <b>\$ 275,498</b>               | \$ 257,553    |
| Loans charged off:   |                                 |               |
| Real estate construction   | <b>13,894</b>                   | 20,553        |
| Commercial industrial, financial and agricultural                    | <b>13,336</b>                   | 2,981         |
| Real estate commercial mortgage                                      | <b>10,047</b>                   | 2,344         |
| Real estate residential mortgage                                     | <b>4,996</b>                    | 1,391         |
| Consumer and home equity   | <b>2,759</b>                    | 2,078         |
| Leasing and other  | <b>497</b>                      | 645           |
| <i>Total loans charged off</i>                                       | <b>45,529</b>                   | 29,992        |
| Recoveries of loans previously charged off:                          |                                 |               |
| Real estate construction   | <b>563</b>                      | 315           |
| Commercial industrial, financial and agricultural                    | <b>391</b>                      | 436           |
| Real estate commercial mortgage                                      | <b>1,535</b>                    | 128           |
| Real estate residential mortgage                                     | <b>44</b>                       | 1             |
| Consumer and home equity   | <b>310</b>                      | 552           |
| Leasing and other  | <b>344</b>                      | 261           |
| <i>Total recoveries</i>  | <b>3,187</b>                    | 1,693         |
| Net loans charged off  | <b>42,342</b>                   | 28,299        |
| Provision for credit losses  | <b>38,000</b>                   | 40,000        |
| <i>Balance of allowance for credit losses at end of period</i>       | <b>\$ 271,156</b>               | \$ 269,254    |
| <u><i>Components of the Allowance for Credit Losses:</i></u>         |                                 |               |
| Allowance for loan losses  | <b>\$ 270,272</b>               | \$ 264,915    |
| Reserve for unfunded lending commitments                             | <b>884</b>                      | 4,339         |
| Allowance for credit losses  | <b>\$ 271,156</b>               | \$ 269,254    |
| <u><i>Selected Ratios:</i></u>                                       |                                 |               |
| Net charge-offs to average loans (annualized)                        | <b>1.42%</b>                    | 0.95%         |
| Allowance for credit losses to loans outstanding                     | <b>2.28%</b>                    | 2.25%         |

The provision for credit losses was \$38.0 million for the first quarter of 2011, a decrease of \$2.0 million, or 5.0%, from the first quarter of 2010. The decrease in the provision for credit losses was due to the continuing stabilization of asset quality as the economy improves.

Net charge-offs increased \$14.0 million, or 49.6%, to \$42.3 million for the first quarter of 2011 compared to \$28.3 million for the first quarter of 2010. The increase in net charge-offs was primarily due to increases in commercial loan net charge-offs (\$10.4 million, or 408.6%), commercial mortgage net charge-offs (\$6.3 million, or 284.1%) and residential mortgage net charge-offs (\$3.6 million, or 256.3%), partially offset by a decline in construction loan net charge-offs (\$6.9 million, or 34.1%).

## Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

Of the \$42.3 million of net charge-offs recorded in the first quarter of 2011, 29.9% were for loans originated by the Corporation's banks in Virginia, 29.4% in Maryland, 25.1% in New Jersey and 15.4% in Pennsylvania. During the first quarter of 2011, there were 12 individual charge-offs that exceeded \$1.0 million, totaling \$22.6 million, of which \$9.4 million was commercial loans, \$6.4 million was for

**Table of Contents**

construction loans, \$5.5 million was for commercial mortgages and \$1.3 million were for residential mortgages.

The following table summarizes the Corporation's non-performing assets as of the indicated dates:

|   | March 31,<br>2011 | March 31,<br>2010      | December 31,<br>2010 |
|---|-------------------|------------------------|----------------------|
|   |                   | (dollars in thousands) |                      |
| Non-accrual loans   | <b>\$ 280,270</b> | \$ 242,423             | \$ 280,688           |
| Loans 90 days past due and accruing   | <b>37,768</b>     | 43,603                 | 48,084               |
| <i>Total non-performing loans</i>   | <b>318,038</b>    | 286,026                | 328,772              |
| Other real estate owned (OREO)  | <b>37,044</b>     | 26,228                 | 32,959               |
| <i>Total non-performing assets</i>  | <b>\$ 355,082</b> | \$ 312,254             | \$ 361,731           |
| Non-accrual loans to total loans  | <b>2.36%</b>      | 2.03%                  | 2.35%                |
| Non-performing assets to total assets   | <b>2.22%</b>      | 1.90%                  | 2.22%                |
| Allowance for credit losses to non-performing loans   | <b>85.26%</b>     | 94.14%                 | 83.80%               |
| Non-performing assets to tangible common shareholders' equity and allowance for credit losses | <b>21.72%</b>     | 23.71%                 | 22.50%               |

The following table presents accruing loans whose terms have been modified under troubled debt restructurings, by type, as of the indicated dates:

|   | March 31,<br>2011 | March 31,<br>2010 | December 31,<br>2010 |
|---|-------------------|-------------------|----------------------|
|   |                   | (in thousands)    |                      |
| Real-estate residential mortgage                  | <b>\$ 39,558</b>  | \$ 28,551         | \$ 37,826            |
| Real-estate commercial mortgage                   | <b>31,967</b>     | 17,978            | 18,778               |
| Real-estate construction                          | <b>5,440</b>      | 4,820             | 5,440                |
| Commercial industrial, financial and agricultural | <b>4,074</b>      | 2,622             | 5,502                |
| Consumer and home equity                          | <b>260</b>        | 268               | 263                  |
| Total accruing troubled debt restructurings       | <b>\$ 81,299</b>  | \$ 54,239         | \$ 67,809            |

In comparison to the first quarter of 2010, the Corporation experienced a \$27.1 million, or 49.9%, increase in troubled debt restructurings due primarily to increases in commercial mortgage and residential mortgage troubled debt restructurings.

The following table summarizes the Corporation's non-performing loans, by type, as of the indicated dates:

|   | March 31,<br>2011 | March 31,<br>2010 | December 31,<br>2010 |
|---|-------------------|-------------------|----------------------|
|   |                   | (in thousands)    |                      |
| Real estate commercial mortgage                   | <b>\$ 97,305</b>  | \$ 70,565         | \$ 93,720            |
| Commercial industrial, financial and agricultural | <b>86,050</b>     | 78,365            | 87,455               |
| Real estate construction                          | <b>72,880</b>     | 79,527            | 84,616               |
| Real estate residential mortgage                  | <b>49,998</b>     | 42,302            | 50,412               |
| Real estate home equity                           | <b>9,314</b>      | 12,769            | 10,188               |
| Consumer  | <b>2,258</b>      | 2,317             | 2,154                |
| Leasing   | <b>233</b>        | 181               | 227                  |



Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

*Total non-performing loans*

**\$ 318,038**

\$ 286,026

\$ 328,772

Non-performing loans increased to \$318.0 million at March 31, 2011, from \$286.0 million at March 31, 2010. The \$32.0 million, or 11.2%, increase was primarily due to a \$26.7 million, or 37.9%, increase in

**Table of Contents**

non-performing commercial mortgages, a \$7.7 million, or 18.2%, increase in non-performing residential mortgages and a \$7.7 million, or 9.8%, increase in commercial loans, partially offset by a \$6.6 million, or 8.4%, decrease in non-performing construction loans and a \$3.5 million, or 27.1%, decrease in non-performing home equity loans.

The \$26.7 million increase in non-performing commercial mortgages was primarily due to increases in the Corporation's New Jersey (\$12.4 million, or 33.3%), Pennsylvania (\$7.7 million, or 30.7%) and Delaware (\$4.5 million, or 118.1%) markets.

The \$7.7 million increase in non-performing residential mortgages was primarily due to increases in the Corporation's New Jersey (\$4.7 million, or 52.3%) and Pennsylvania (\$4.7 million, or 45.9%) markets. The \$7.7 million increase in non-performing commercial loans was due to an increase in the Corporation's Pennsylvania market of \$8.4 million, or 22.9%.

The \$6.6 million decrease in non-performing construction loans was due to \$59.8 million of charge-offs recorded since March 31, 2010, partially offset by additions to non-performing construction loans. Geographically, the decrease in non-performing construction loans was in the Corporation's Maryland (\$12.5 million, or 36.6%), Pennsylvania (\$5.3 million, or 48.8%) and New Jersey (\$4.9 million, or 26.8%) markets, partially offset by an increase in the Virginia (\$15.8 million, or 97.9%) market.

The following table summarizes the Corporation's OREO, by property type, as of the indicated dates:

|                        | <b>March 31,<br/>2011</b> | March 31,<br>2010<br>(in thousands) | December 31,<br>2010 |
|------------------------|---------------------------|-------------------------------------|----------------------|
| Commercial properties  | <b>\$ 18,475</b>          | \$ 7,550                            | \$ 15,916            |
| Residential properties | <b>14,738</b>             | 15,761                              | 12,635               |
| Undeveloped land       | <b>3,831</b>              | 2,917                               | 4,408                |
| <i>Total OREO</i>      | <b>\$ 37,044</b>          | \$ 26,228                           | \$ 32,959            |

The following table summarizes loan delinquency rates, by type, as of March 31:

|   | 31-89<br>Days     | <b>2011<br/>30<br/>Days (1)</b> | Total             | 31-89<br>Days | 2010<br>30<br>Days (1) | Total      |
|---|-------------------|---------------------------------|-------------------|---------------|------------------------|------------|
| Real estate commercial mortgage                   | <b>0.66%</b>      | <b>2.21%</b>                    | <b>2.87%</b>      | 1.37%         | 1.63%                  | 3.00%      |
| Commercial industrial, financial and agricultural | <b>0.50</b>       | <b>2.33</b>                     | <b>2.83</b>       | 0.71          | 2.13                   | 2.84       |
| Real estate construction                          | <b>0.56</b>       | <b>9.75</b>                     | <b>10.31</b>      | 2.18          | 8.49                   | 10.67      |
| Real estate residential mortgage                  | <b>3.47</b>       | <b>4.89</b>                     | <b>8.36</b>       | 3.57          | 4.45                   | 8.02       |
| Real estate home equity                           | <b>0.74</b>       | <b>0.57</b>                     | <b>1.31</b>       | 0.87          | 0.76                   | 1.63       |
| Consumer, leasing and other                       | <b>1.26</b>       | <b>0.64</b>                     | <b>1.90</b>       | 1.28          | 0.66                   | 1.94       |
| <i>Total</i>                                      | <b>0.88%</b>      | <b>2.67%</b>                    | <b>3.55%</b>      | 1.33%         | 2.39%                  | 3.72%      |
| <i>Total dollars (in thousands)</i>               | <b>\$ 104,046</b> | <b>\$ 318,038</b>               | <b>\$ 422,084</b> | \$ 159,632    | \$ 286,026             | \$ 445,658 |

(1) Includes non-accrual loans.

The decrease in delinquency rates since the first quarter of 2010 was primarily in loans 31-89 days past due across all loan types, partially offset by an increase in loans, particularly commercial mortgages, greater than 90 days past due.



**Table of Contents**

The following table presents ending balances of loans outstanding, net of unearned income:

|   | March 31,<br>2011    | March 31,<br>2010<br>(in thousands) | December 31,<br>2010 |
|---|----------------------|-------------------------------------|----------------------|
| Real-estate commercial mortgage                   | \$ 4,392,679         | \$ 4,322,774                        | \$ 4,375,980         |
| Commercial industrial, financial and agricultural | 3,692,668            | 3,684,903                           | 3,704,384            |
| Real-estate home equity                           | 1,620,340            | 1,638,179                           | 1,641,777            |
| Real-estate residential mortgage                  | 1,022,251            | 951,381                             | 995,990              |
| Real-estate construction                          | 747,806              | 937,279                             | 801,185              |
| Consumer  | 337,413              | 361,681                             | 350,161              |
| Leasing and other                                 | 60,051               | 68,643                              | 63,830               |
| <i>Loans, net of unearned income</i>              | <b>\$ 11,873,208</b> | \$ 11,964,840                       | \$ 11,933,307        |

Approximately \$5.1 billion, or 43.3%, of the Corporation's loan portfolio was in commercial mortgage and construction loans at March 31, 2011. The Corporation did not have a concentration of credit risk with any single borrower, industry or geographical location. However, the performance of real estate markets and general economic conditions adversely impacted the performance of these loans.

From 2008 to 2010, the Corporation experienced significant increases in non-performing construction loans and commercial mortgages as a result of weak economic conditions. In comparison to December 31, 2010, non-performing construction loans decreased \$11.7 million, or 13.9%, to \$72.9 million as of March 31, 2011 as charge-offs and paydowns of certain non-performing construction loans exceeded additions during the first three months of 2011. The Corporation continues to reduce its exposure to residential housing development construction loans, most notably in its New Jersey, Virginia and Maryland markets. In comparison to December 31, 2010, non-performing commercial mortgages increased \$3.6 million, or 3.8%, to \$97.3 million as of March 31, 2011. During the first three months of 2011, economic conditions, although slowly improving, continued to place stress on the credit quality of the commercial mortgage portfolio.

Commercial loans comprise 31.1% of the total loan portfolio. As with commercial mortgages, the credit quality of these loans has been impacted by general economic conditions, as businesses continued to struggle for growth as a result of reduced consumer spending.

Approximately \$2.6 billion, or 22.3%, of the Corporation's loan portfolio was in residential mortgage and home equity loans at March 31, 2011. The significant deterioration in residential real estate values in prior years, particularly in portions of New Jersey, Virginia and Maryland, and general economic conditions, resulted in increases in non-performing loans and negatively impacted the overall credit quality of the portfolio. However, as with the commercial loan portfolio, the Corporation experienced a slight decrease in non-performing asset levels during the first quarter of 2011.

Management believes that the allowance for credit losses of \$271.2 million as of March 31, 2011 is sufficient to cover losses inherent in both the loan portfolio and the unfunded lending commitments as of that date and is appropriate based on applicable accounting standards.

**Table of Contents****Other Income**

The following table presents the components of other income:

|  | Three months ended     |           | Increase (decrease) |         |
|--|------------------------|-----------|---------------------|---------|
|  | 2011                   | 2010      | \$                  | %       |
|  | (dollars in thousands) |           |                     |         |
| Overdraft fees   | \$ 7,571               | \$ 8,884  | \$ (1,313)          | (14.8)% |
| Cash management fees   | 2,450                  | 2,277     | 173                 | 7.6     |
| Other  | 3,284                  | 3,106     | 178                 | 5.7     |
| Service charges on deposit accounts                          | 13,305                 | 14,267    | (962)               | (6.7)   |
| Debit card income  | 4,204                  | 3,534     | 670                 | 19.0    |
| Foreign currency processing income                           | 2,197                  | 1,938     | 259                 | 13.4    |
| Merchant fees  | 2,147                  | 1,824     | 323                 | 17.7    |
| Letter of credit fees  | 1,255                  | 1,239     | 16                  | 1.3     |
| Other  | 1,679                  | 1,630     | 49                  | 3.0     |
| Other service charges and fees                               | 11,482                 | 10,165    | 1,317               | 13.0    |
| Investment management and trust services                     | 9,204                  | 8,088     | 1,116               | 13.8    |
| Mortgage banking income                                      | 5,463                  | 4,149     | 1,314               | 31.7    |
| Credit card income   | 1,596                  | 1,451     | 145                 | 10.0    |
| Gains on sales of OREO                                       | 699                    | 464       | 235                 | 50.6    |
| Other  | 2,126                  | 1,899     | 227                 | 12.0    |
| <i>Total, excluding investment securities gains (losses)</i> | <b>43,875</b>          | 40,483    | 3,392               | 8.4     |
| Investment securities gains (losses)                         | 2,285                  | (2,223)   | 4,508               | N/M     |
| <i>Total</i>   | <b>\$ 46,160</b>       | \$ 38,260 | \$ 7,900            | 20.6%   |

N/M Not meaningful.

The \$1.3 million, or 14.8%, decrease in overdraft fees was a result of newly enacted regulations that took effect in August 2010, which require customers to affirmatively consent to the payment of certain types of overdrafts.

Increases in debit card income (\$670,000, or 19.0%), foreign currency processing revenues (\$259,000, or 13.4%) and merchant fees (\$323,000, or 17.7%) all resulted from higher transaction volumes.

The Federal Reserve recently issued proposed pricing guidelines regarding interchange income on certain debit card transactions, as required under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). In 2010, the Corporation's debit card interchange income that would have been subject to these regulations totaled \$15.9 million. If the regulations are enacted as proposed, the Corporation estimates that this interchange income would decline by approximately \$9.7 million annually. The Corporation will continue to monitor its fee structure to identify changes that could be implemented to mitigate the proposed reduction in this interchange income.

The \$1.1 million, or 13.8%, increase in investment management and trust services income was due to an increase in brokerage revenue, due both to an improvement in the market values of assets under management and the Corporation's expanded focus on recurring revenues in the brokerage business.

The \$1.3 million, or 31.7%, increase in mortgage banking income was primarily due to a \$74.2 million, or 31.7%, increase in the volume of loans sold, largely due to increased refinances. Also impacting the increase in mortgage banking income was a slight improvement in the spreads on loans sold.

## Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

Investment securities gains of \$2.3 million for the first quarter of 2011 included \$3.6 million of net gains on the sales of securities partially offset by \$1.3 million of other-than-temporary impairment charges. The Corporation recorded \$994,000 of other-than-temporary impairment charges for pooled trust preferred

**Table of Contents**

securities issued by financial institutions and \$297,000 of other-than-temporary impairment charges for certain stocks of financial institutions.

The \$2.2 million of investment securities losses for the first quarter of 2010 included \$2.8 million of net gains on the sales of securities, more than offset by \$5.0 million of other-than-temporary impairment charges. The Corporation recorded \$4.2 million of other-than-temporary impairment charges for pooled trust preferred securities issued by financial institutions and \$824,000 of other-than-temporary impairment charges related to stocks of financial institutions. See Note C, Investment Securities in the Notes to Consolidated Financial Statements for additional details.

**Other Expenses**

The following table presents the components of other expenses:

|                                | Three months ended     |            | Increase (decrease) |        |
|--------------------------------|------------------------|------------|---------------------|--------|
|                                | 2011                   | 2010       | \$                  | %      |
|                                | (dollars in thousands) |            |                     |        |
| Salaries and employee benefits | \$ 54,308              | \$ 52,345  | \$ 1,963            | 3.8%   |
| Net occupancy expense          | 11,366                 | 11,650     | (284)               | (2.4)  |
| FDIC insurance expense         | 4,754                  | 4,954      | (200)               | (4.0)  |
| Data processing                | 3,372                  | 3,417      | (45)                | (1.3)  |
| Equipment expense              | 3,132                  | 3,091      | 41                  | 1.3    |
| Professional fees              | 2,849                  | 2,546      | 303                 | 11.9   |
| Marketing                      | 2,836                  | 1,830      | 1,006               | 55.0   |
| Telecommunications             | 2,172                  | 2,270      | (98)                | (4.3)  |
| OREO and repossession expense  | 1,970                  | 2,680      | (710)               | (26.5) |
| Supplies                       | 1,375                  | 1,329      | 46                  | 3.5    |
| Postage                        | 1,405                  | 1,305      | 100                 | 7.7    |
| Intangible amortization        | 1,178                  | 1,314      | (136)               | (10.4) |
| Other                          | 10,846                 | 11,291     | (445)               | (3.9)  |
| <i>Total</i>                   | <b>\$ 101,563</b>      | \$ 100,022 | \$ 1,541            | 1.5%   |

Salaries and employee benefits increased \$2.0 million, or 3.8%, with salaries increasing \$2.4 million, or 5.6%, and employee benefits decreasing \$434,000, or 4.5%. The increase in salaries was primarily related to the ending of a 12-month freeze on merit increases in March 2010. Also contributing to the increase in salaries was a \$702,000 increase in incentive compensation expense and a \$254,000 increase in stock-based compensation expense. The decrease in employee benefits was primarily due to a decrease in healthcare costs.

The \$303,000, or 11.9%, increase in professional fees was primarily due to an increase in legal fees related to collection and workout efforts for non-performing loans. The \$1.0 million, or 55.0%, increase in marketing expenses was primarily due an increase in promotional campaigns.

The \$710,000, or 26.5%, decrease in OREO and repossession expense was due to a \$338,000 decrease in losses on sales of OREO, a \$309,000 decrease in valuation provisions for OREO properties held and a \$150,000 decrease in repossession expense. Combined with gains on OREO sales, included within other income on the consolidated statements of income, the net gain on sales of OREO for the first three months of 2011 were \$535,000, compared to net losses of \$38,000 for the first three months of 2010. As the Corporation continues to work through repossessed real estate, OREO and repossession expense will continue to be volatile.

The \$445,000, or 3.9%, decrease in other expenses included a \$900,000 decrease in reserves associated with the potential repurchase of previously sold residential mortgage and home equity loans. During the first three months of 2011, the Corporation's exposure to future repurchases was reduced as a result of entering into a

**Table of Contents**

settlement agreement with a secondary market investor. Also contributing to the decrease in other expenses was a reduction in state and other taxes of \$543,000 as a result of a \$204,000 increase in state tax credits and a \$249,000 increase in sales tax refunds. Offsetting these decreases was a \$417,000 increase in software maintenance expense and a \$380,000 increase in provisions for debit card rewards points earned.

**Income Taxes**

Income tax expense for the first quarter of 2011 was \$12.4 million, a \$3.1 million, or 33.5%, increase from \$9.3 million for the first quarter of 2010. The increase was primarily due to the increase in income before income taxes.

The Corporation's effective tax rate was 26.8% in 2011, as compared to 25.2% in 2010. The effective rate is generally lower than the Federal statutory rate of 35% due to investments in tax-free municipal securities and Federal tax credits earned from investments in low and moderate-income housing partnerships. The effective rate for the first quarter of 2011 is higher than the same period in 2010 due to non-taxable income and tax credits having a smaller impact on the effective tax rate due to the higher level of income before income taxes.

**FINANCIAL CONDITION**

Total assets decreased \$314.1 million, or 1.9%, to \$16.0 billion at March 31, 2011 from \$16.3 billion at December 31, 2010.

Investment securities decreased \$164.1 million, or 5.7%. During the first quarter of 2011, proceeds from the sales and maturities of collateralized mortgage obligations and mortgage-backed securities were not fully reinvested in the investment portfolio due to few attractive investment options in the current rate environment.

The Corporation experienced a \$60.1 million, or 0.5%, decrease in loans, net of unearned income. Construction loans decreased \$53.4 million, or 6.7%, due to paydowns on existing loans and \$13.9 million of charge-offs recorded in the first three months of 2011. Also contributing to the decrease in loans was a \$21.4 million, or 1.3%, decrease in home equity loans, a \$12.7 million, or 3.6%, decrease in consumer loans and a \$11.7 million, or 0.3%, decrease in commercial loans, all resulting from continued weak demand. Offsetting these decreases were a \$26.3 million, or 2.6%, increase in residential mortgages and a \$16.7 million, or 0.4%, increase in commercial mortgages. Residential mortgages increased as certain 10 and 15 year fixed rate mortgages and certain adjustable rate mortgages are being held in portfolio rather than sold in the secondary market.

Other assets decreased \$155.6 million, or 24.8%, primarily due to \$142.9 million of investment security sales that had not settled as of December 31, 2010.

Deposits increased \$20.0 million, or 0.2%, due to an increase in demand and savings deposits of \$210.1 million, or 2.7%, partially offset by a decrease in time deposits of \$190.0 million, or 4.1%. The increase in demand and saving accounts was due to a \$92.4 million, or 6.7%, increase in municipal account balances, an \$88.1 million, or 3.6% increase in business account balances and a \$22.4 million, or 0.6%, increase in personal account balances. The decrease in time deposits was due to a \$78.2 million, or 5.3%, decrease in customer certificates of deposit with original maturity terms less than one year, an \$89.6 million, or 3.1%, decrease in accounts with original maturity terms greater than one year and a \$22.3 million, or 8.8%, decrease in jumbo certificates of deposits.

Short-term borrowings decreased \$259.7 million, or 38.5%, mainly in Federal funds purchased, which decreased \$259.6 million, or 96.9%. The decrease in short-term borrowings largely resulted from the Corporation's overall liquidity position, which was enhanced by an increase in deposits and a decrease in investments and loans. Long-term debt decreased \$83.8 million, or 7.5%, as a result of FHLB advance maturities, which were not replaced.



**Table of Contents****Capital Resources**

Total shareholders' equity increased \$29.9 million, or 1.6%, during the first three months of 2011. The increase was due to \$33.8 million of net income and a \$3.8 million increase in holding gains on available for sale investment securities, partially offset by \$8.0 million of dividends on common shares outstanding.

The Corporation and its subsidiary banks are subject to various regulatory capital requirements administered by banking regulators. Failure to meet minimum capital requirements can initiate certain actions by regulators that could have a material effect on the Corporation's consolidated financial statements. The regulations require that banks maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk weighted assets (as defined), and Tier I capital to average assets (as defined). As of March 31, 2011, the Corporation and each of its bank subsidiaries met the minimum requirements. In addition, each of the Corporation's bank subsidiaries' capital ratios exceeded the amounts required to be considered "well capitalized" as defined in the regulations.

The following table summarizes the Corporation's capital ratios in comparison to regulatory requirements, where applicable:

|  | March 31<br>2011 | December 31<br>2010 | Regulatory<br>Minimum<br>Capital<br>Adequacy |
|--|------------------|---------------------|--|
| Total Capital (to Risk-Weighted Assets)            | 14.7%            | 14.2%               | 8.0%   |
| Tier I Capital (to Risk-Weighted Assets)           | 12.0%            | 11.6%               | 4.0%   |
| Tier I Capital (to Average Assets)                 | 9.7%             | 9.4%                | 4.0%   |
| Tangible common equity to tangible assets (1)      | 8.8%             | 8.5%                | N/A  |
| Tangible common equity to risk weighted assets (2) | 10.9%            | 10.5%               | N/A  |

(1) Ending common shareholders' equity, net of goodwill and intangible assets, divided by ending assets, net of goodwill and intangible assets.

(2) Ending common shareholders' equity, net of goodwill and intangible assets, divided by risk-weighted assets.

N/A Not applicable.

The Basel Committee on Banking Supervision (Basel) is a committee of central banks and bank regulators from major industrialized countries that develops broad policy guidelines for use by each country's regulators with the purpose of ensuring that financial institutions have adequate capital given the risk levels of assets and off-balance sheet financial instruments.

In December, 2010, Basel released a framework for strengthening international capital and liquidity regulation, referred to as Basel III. Basel III includes defined minimum capital ratios, which must be met when implementation occurs on January 1, 2013. An additional capital conservation buffer will be phased-in beginning January 1, 2016 and, when fully phased-in three years later, the minimum ratios will be 2.5% higher. Fully phased-in capital standards under Basel III will require banks to maintain more capital than the minimum levels required under current regulatory capital standards.

The U.S. banking regulators have not yet proposed regulations implementing Basel III, but are expected to do so in the near future. As of March 31, 2011, the Corporation met the fully phased-in minimum capital ratios required for each of the capital measures included in Basel III.

**Liquidity**

The Corporation must maintain a sufficient level of liquid assets to meet the cash needs of its customers, who, as depositors, may want to withdraw funds or who, as borrowers, need credit availability. Liquidity is provided on a continuous basis through scheduled and unscheduled principal and interest payments on outstanding loans and investments and through the availability of deposits and borrowings. The Corporation also maintains secondary sources that provide liquidity on a secured and unsecured basis to

**Table of Contents**

meet short-term needs. Liquidity must also be managed at the Fulton Financial Corporation parent company level. For safety and soundness reasons, banking regulations limit the amount of cash that can be transferred from subsidiary banks to the parent company in the form of loans and dividends. Generally, these limitations are based on the subsidiary banks' regulatory capital levels and their net income. Management continues to monitor the liquidity and capital needs of the parent company and will implement appropriate strategies, as necessary, to remain adequately capitalized and to meet its cash needs.

The Corporation's sources and uses of cash were discussed in general terms in the net interest income section of Management's Discussion. The consolidated statements of cash flows provide additional information. The Corporation's operating activities during the first three months of 2011 generated \$141.4 million of cash, mainly due to net income, as adjusted for non-cash expenses, most notably, the provision for credit losses, and a decrease in loans held for sale and other assets. Cash flows provided by investing activities were \$253.2 million, due mainly to proceeds from the maturities and sales of investment securities, partially offset by purchases of investment securities and a net increase in short-term investments. Net cash used in financing activities was \$328.2 million as a result of repayments of short-term borrowings and long-term debt and a net decrease in time deposits exceeding cash inflows from demand and savings deposits increases.

---

**Table of Contents**

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Market risk is the exposure to economic loss that arises from changes in the values of certain financial instruments. The types of market risk exposures generally faced by financial institutions include interest rate risk, equity market price risk, debt security market price risk, foreign currency risk and commodity price risk. Due to the nature of its operations, only equity market price risk, debt security market price risk and interest rate risk are significant to the Corporation.

**Equity Market Price Risk**

Equity market price risk is the risk that changes in the values of equity investments could have a material impact on the financial position or results of operations of the Corporation. The Corporation's equity investments consisted of \$92.6 million of Federal Home Loan Bank (FHLB) and Federal Reserve Bank stock, \$35.1 million of common stocks of publicly traded financial institutions, and \$7.0 million of other equity investments. The equity investments most susceptible to equity market price risk are the financial institutions stocks, which had a cost basis of approximately \$31.3 million and fair value of \$35.1 million at March 31, 2011. Gross unrealized gains in this portfolio were \$4.7 million, and gross unrealized losses were \$920,000.

The Corporation has evaluated whether any unrealized losses on individual equity investments constituted other-than-temporary impairment, which would require a write-down through a charge to earnings. Based on the results of such evaluations, the Corporation recorded write-downs of \$297,000 for specific financial institution stocks that were deemed to exhibit other-than-temporary impairment in value during the three months ended March 31, 2011. Additional impairment charges may be necessary in the future depending upon the performance of the equity markets in general and the performance of the individual investments held by the Corporation. See Note C, "Investment Securities" in the Notes to Consolidated Financial Statements for additional details.

Management continuously monitors the fair value of its equity investments and evaluates current market conditions and operating results of the issuers. Periodic sale and purchase decisions are made based on this monitoring process. None of the Corporation's equity securities are classified as trading. Future cash flows from these investments are not provided in the table on page 48 as such investments do not have maturity dates.

Another source of equity market price risk is the investment in FHLB stock, which the Corporation is required to own in order to borrow funds from the FHLB. As of March 31, 2011, the Corporation's investment in FHLB stock was \$73.3 million. FHLBs obtain funding primarily through the issuance of consolidated obligations of the FHLB system. The U.S. government does not guarantee these obligations, and each of the FHLB banks is, generally, jointly and severally liable for repayment of each other's debt. The FHLB system has experienced financial stress, and some of the regional banks within the FHLB system have suspended or reduced their dividends, or eliminated the ability of members to redeem capital stock. The Corporation's FHLB stock and its ability to obtain FHLB funds could be adversely impacted if the financial health of the FHLB system worsens.

In addition to its equity portfolio, the Corporation's investment management and trust services income may be impacted by fluctuations in the equity markets. A portion of this revenue is based on the value of the underlying investment portfolios, many of which include equity investments. If the values of those investment portfolios decrease, whether due to factors influencing U.S. equity markets in general or otherwise, the Corporation's revenue would be negatively impacted. In addition, the Corporation's ability to sell its brokerage services in the future will be dependent, in part, upon consumers' level of confidence in the outlook for rising equity prices.

---

**Table of Contents****Debt Security Market Price Risk**

Debt security market price risk is the risk that changes in the values of debt securities could have a material impact on the financial position or results of operations of the Corporation. The Corporation's debt security investments consist primarily of mortgage-backed securities and collateralized mortgage obligations whose principal payments are guaranteed by U.S. government sponsored agencies, state and municipal securities, U.S. government sponsored agency securities, and U.S. government debt securities, auction rate certificates and corporate debt securities.

**Municipal Securities**

As of March 31, 2011, the Corporation had \$362.6 million of municipal securities issued by various municipalities in its investment portfolio. Ongoing uncertainty with respect to the financial viability of municipal insurers places much greater emphasis on the underlying strength of issuers. Increasing pressure on local tax revenues of issuers due to adverse economic conditions could also have an adverse impact on the underlying credit quality of issuers. The Corporation evaluates existing and potential holdings primarily on the underlying credit worthiness of the issuing municipality and then, to a lesser extent, on the credit enhancement corresponding to the individual issuance. As of March 31, 2011, approximately 94% of municipal securities were supported by the general obligation of corresponding municipalities. In addition, approximately 72% of these securities were school district issuances that are supported by the general obligation of the corresponding municipalities, as of March 31, 2011.

**Auction Rate Certificates**

The Corporation's debt securities include investments in student loan auction rate securities, also known as auction rate certificates (ARCs), with a cost basis of \$267.3 million and a fair value of \$256.4 million, or 1.6% of total assets, at March 31, 2011.

ARCs are long-term securities structured to allow their sale in periodic auctions, resulting in both the treatment of ARCs as short-term instruments in normal market conditions and fair values that could be derived based on periodic auction prices. However, beginning in 2008, market auctions for these securities began to fail due to an insufficient number of buyers, resulting in an illiquid market. This illiquidity has resulted in recent market prices that represent forced liquidations or distressed sales and do not provide an accurate basis for fair value. Therefore, at March 31, 2011, the fair values of the ARCs were derived using significant unobservable inputs based on an expected cash flow model which produced fair values that were materially different from those that would be expected from settlement of these investments in the illiquid market that presently exists. The expected cash flow model produced fair values which assumed a return to market liquidity sometime within the next three years.

The credit quality of the underlying debt associated with ARCs is also a factor in the determination of their estimated fair value. As of March 31, 2011, approximately \$206 million, or 81%, 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 \$30 million, or 59%, of the student loans underlying the ARCs have principal payments which are guaranteed by the Federal government. In total, approximately \$226 million, or 88%, of the student loans underlying the ARCs have principal payments which are guaranteed by the Federal government. As of March 31, 2011, all ARCs were current and making scheduled interest payments.

**Table of Contents****Corporate Debt Securities**

The Corporation holds corporate debt securities in the form of pooled trust preferred securities, single-issuer trust preferred securities and subordinated debt issued by financial institutions, as presented in the following table:

|  | March 31, 2011    |                         |
|--|-------------------|-------------------------|
|  | Amortized<br>cost | Estimated<br>fair value |
|  | (in thousands)    |                         |
| Single-issuer trust preferred securities                         | \$ 91,266         | \$ 84,925               |
| Subordinated debt  | 35,023            | 36,841                  |
| Pooled trust preferred securities                                | 7,153             | 4,816                   |
| Total corporate debt securities issued by financial institutions | \$ 133,442        | \$ 126,582              |

The fair values for pooled trust preferred securities and certain single-issuer trust preferred securities were 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 investments in single-issuer trust preferred securities had an unrealized loss of \$6.3 million at March 31, 2011. The Corporation did not record any other-than-temporary impairment charges for single-issuer trust preferred securities during the three months ended March 31, 2011 or 2010. 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 \$39.7 million at March 31, 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 \$10.3 million and an estimated fair value of \$8.1 million at March 31, 2011, were not rated by any ratings agency.

The Corporation holds ten pooled trust preferred securities. Nine of these securities, with an amortized cost of \$6.4 million and an estimated fair value of \$4.1 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 39% as of March 31, 2011. The discounted cash flow modeling for pooled trust preferred securities held by the Corporation as of March 31, 2011 assumed, on average, an additional 16% expected deferral rate. During the three months ended March 31, 2011, the Corporation recorded \$994,000 of other-than-temporary impairment losses for pooled trust preferred securities based on an expected cash flows model. Additional impairment charges for debt securities may be necessary in the future depending upon the performance of the individual investments held by the Corporation.

See Note C, "Investment Securities" in the Notes to Consolidated Financial Statements for further discussion related to the Corporation's other-than-temporary impairment evaluations for debt securities and Note J, "Fair Value Measurements" in the Notes to Consolidated Financial Statements for further discussion related to debt securities' fair values.

**Table of Contents****Interest Rate Risk**

Interest rate risk creates exposure in two primary areas. First, changes in rates have an impact on the Corporation's liquidity position and could affect its ability to meet obligations and continue to grow. Second, movements in interest rates can create fluctuations in the Corporation's net income and changes in the economic value of its equity.

The Corporation employs various management techniques to minimize its exposure to interest rate risk. An Asset/Liability Management Committee (ALCO), consisting of key financial and senior management personnel, meets on a periodic basis. The ALCO is responsible for reviewing the interest rate sensitivity position of the Corporation, approving asset and liability management policies, and overseeing the formulation and implementation of strategies regarding balance sheet positions and earnings.

The following table provides information about the Corporation's interest rate sensitive financial instruments. The table presents expected cash flows and weighted average rates for each significant interest rate sensitive financial instrument, by expected maturity period. None of the Corporation's financial instruments are classified as trading. All dollar amounts are in thousands.

|                               | Expected Maturity Period |                     |                     |                     |                     |                     | Total                | Estimated Fair Value |
|-------------------------------|--------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|----------------------|----------------------|
|                               | Year 1                   | Year 2              | Year 3              | Year 4              | Year 5              | Beyond              |                      |                      |
| Fixed rate loans (1)          | \$ 1,052,288             | \$ 488,162          | \$ 400,269          | \$ 301,770          | \$ 257,609          | \$ 628,278          | \$ 3,128,376         | \$ 3,180,220         |
| <i>Average rate</i>           | 4.29%                    | 6.21%               | 6.12%               | 6.10%               | 6.02%               | 5.66%               | 5.41%                |                      |
| Floating rate loans (1) (2)   | 1,880,240                | 1,103,003           | 980,512             | 851,278             | 1,796,019           | 2,126,921           | 8,737,973            | 8,716,745            |
| <i>Average rate</i>           | 4.66%                    | 4.95%               | 4.83%               | 4.84%               | 4.39%               | 5.30%               | 4.83%                |                      |
| Fixed rate investments (3)    | 470,869                  | 339,265             | 232,528             | 184,483             | 149,572             | 823,997             | 2,200,714            | 2,250,339            |
| <i>Average rate</i>           | 4.16%                    | 4.30%               | 4.38%               | 4.28%               | 4.37%               | 4.23%               | 4.26%                |                      |
| Floating rate investments (3) | 0                        | 0                   | 267,372             | 166                 | 0                   | 63,939              | 331,477              | 312,426              |
| <i>Average rate</i>           | %                        | %                   | 3.36%               | 1.63%               | %                   | 2.22%               | 3.14%                |                      |
| Other interest-earning assets | 114,196                  | 0                   | 0                   | 0                   | 0                   | 0                   | 114,196              | 114,196              |
| <i>Average rate</i>           | 1.15%                    | %                   | %                   | %                   | %                   | %                   | 1.15%                |                      |
| <b>Total</b>                  | <b>\$ 3,517,593</b>      | <b>\$ 1,930,430</b> | <b>\$ 1,880,681</b> | <b>\$ 1,337,697</b> | <b>\$ 2,203,200</b> | <b>\$ 3,643,135</b> | <b>\$ 14,512,736</b> | <b>\$ 14,573,926</b> |
| <i>Average rate</i>           | 4.36%                    | 5.15%               | 4.84%               | 5.05%               | 4.58%               | 5.07%               | 4.80%                |                      |
| Fixed rate deposits (4)       | \$ 2,364,667             | \$ 772,900          | \$ 499,746          | \$ 140,861          | \$ 97,320           | \$ 13,629           | \$ 3,889,123         | \$ 3,931,441         |
| <i>Average rate</i>           | 1.35%                    | 2.23%               | 2.53%               | 2.69%               | 2.60%               | 2.31%               | 1.76%                |                      |
| Floating rate deposits (5)    | 4,320,647                | 528,887             | 443,551             | 417,373             | 325,375             | 173,364             | 6,209,197            | 6,209,197            |
| <i>Average rate</i>           | 0.44%                    | 0.27%               | 0.24%               | 0.20%               | 0.19%               | 0.22%               | 0.37%                |                      |
| Fixed rate borrowings (6)     | 84,275                   | 30,866              | 911                 | 56,203              | 100,495             | 742,037             | 1,014,787            | 997,868              |
| <i>Average rate</i>           | 3.77%                    | 4.46%               | 5.05%               | 3.28%               | 5.35%               | 4.93%               | 4.77%                |                      |
| Floating rate borrowings (7)  | 414,680                  | 0                   | 0                   | 0                   | 0                   | 20,620              | 435,300              | 419,727              |
| <i>Average rate</i>           | 0.16%                    | %                   | %                   | %                   | %                   | 2.67%               | 0.27%                |                      |
| <b>Total</b>                  | <b>\$ 7,184,269</b>      | <b>\$ 1,332,653</b> | <b>\$ 944,208</b>   | <b>\$ 614,437</b>   | <b>\$ 523,190</b>   | <b>\$ 949,650</b>   | <b>\$ 11,548,407</b> | <b>\$ 11,558,233</b> |
| <i>Average rate</i>           | 0.76%                    | 1.50%               | 1.46%               | 1.06%               | 1.63%               | 3.99%               | 1.22%                |                      |

## Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

- (1) Amounts are based on contractual payments and maturities, adjusted for expected prepayments. Excludes overdraft deposit balances.
- (2) Line of credit amounts are based on historical cash flow assumptions, with an average life of approximately 5 years.
- (3) Amounts are based on contractual maturities; adjusted for expected prepayments on mortgage-backed securities and collateralized mortgage obligations and expected calls on agency and municipal securities.
- (4) Amounts are based on contractual maturities of time deposits.
- (5) Estimated based on history of deposit flows.
- (6) Amounts are based on contractual maturities of debt instruments, adjusted for possible calls. Amounts also include junior subordinated deferrable interest debentures.
- (7) Amounts include Federal Funds purchased, short-term promissory notes and securities sold under agreements to repurchase, which mature in less than 90 days, in addition to junior subordinated deferrable interest debentures.

**Table of Contents**

The preceding table and discussion addressed the liquidity implications of interest rate risk and focused on expected cash flows from financial instruments. Expected maturities, however, do not necessarily reflect the net interest impact of interest rate changes. Certain financial instruments, such as adjustable rate loans, have repricing periods that differ from expected cash flows periods.

Included within the \$8.7 billion of floating rate loans above are \$3.8 billion of loans, or 43.5% of the total, that float with the prime interest rate, \$1.2 billion, or 14.0%, of loans that float with other interest rates, primarily LIBOR, and \$3.7 billion, or 42.5%, of adjustable rate loans. The \$3.7 billion of adjustable rate loans include loans that are fixed rate instruments for a certain period of time, and then convert to floating rates.

The following table presents the percentage of adjustable rate loans, at March 31, 2011, stratified by the period until their next repricing:

|                         | Percent of Total<br>Adjustable<br>Rate<br>Loans |
|-------------------------|---|
| One year                | 27.5%   |
| Two years               | 22.6  |
| Three years             | 21.1  |
| Four years              | 13.4  |
| Five years              | 10.9  |
| Greater than five years | 4.5   |

The Corporation uses three complementary methods to measure and manage interest rate risk. They are static gap analysis, simulation of earnings, and estimates of economic value of equity. Using these measurements in tandem provides a reasonably comprehensive summary of the magnitude of interest rate risk in the Corporation, level of risk as time evolves, and exposure to changes in interest rates.

Static gap provides a measurement of repricing risk in the Corporation's balance sheet as of a point in time. This measurement is accomplished through stratification of the Corporation's assets and liabilities into repricing periods. The sum of assets and liabilities in each of these periods are compared for mismatches within that maturity segment. Core deposits having no contractual maturities are placed into repricing periods based upon historical balance performance. Repricing for mortgage loans, mortgage-backed securities and collateralized mortgage obligations includes the effect of expected cash flows. Estimated prepayment effects are applied to these balances based upon industry projections for prepayment speeds. The Corporation's policy limits the cumulative six-month ratio of rate sensitive assets to rate sensitive liabilities (RSA/RSL) to a range of 0.85 to 1.15. As of March 31, 2011, the cumulative six-month ratio of RSA/RSL was 1.10.

Simulation of net interest income and net income is performed for the next twelve-month period. A variety of interest rate scenarios are used to measure the effects of sudden and gradual movements upward and downward in the yield curve. These results are compared to the results obtained in a flat or unchanged interest rate scenario. Simulation of earnings is used primarily to measure the Corporation's short-term earnings exposure to rate movements. The Corporation's policy limits the potential exposure of net interest income to 10% of the base case net interest income for a 100 basis point shock in interest rates, 15% for a 200 basis point shock and 20% for a 300 basis point shock. A shock is an immediate upward or downward movement of interest rates across the yield curve. The shocks do not take into account changes in customer behavior that could result in changes to mix and/or volumes in the balance sheet nor do they account for competitive pricing over the forward 12-month period.



**Table of Contents**

The following table summarizes the expected impact of interest rate shocks on net interest income (due to the current level of interest rates, the 200 and 300 basis point downward shock scenarios are not shown):

| Rate Shock | Annual change<br>in net interest<br>income | % Change |
|------------|--|----------|
| +300 bp    | + \$ 57.5 million                          | +10.0%   |
| +200 bp    | + \$ 33.1 million                          | +5.7%    |
| +100 bp    | + \$10.3 million                           | +1.8%    |
| 100 bp(1)  | \$ 7.1 million                             | 1.2%     |

(1) Because certain current short-term interest rates are at or below 1.00%, the 100 basis point downward shock assumes that corresponding short-term interest rates approach an implied floor that, in effect, reflects a decrease of less than the full 100 basis points downward shock. Economic value of equity estimates the discounted present value of asset cash flows and liability cash flows. Discount rates are based upon market prices for like assets and liabilities. Upward and downward shocks of interest rates are used to determine the comparative effect of such interest rate movements relative to the unchanged environment. This measurement tool is used primarily to evaluate the longer-term repricing risks and options in the Corporation's balance sheet. A policy limit of 10% of economic equity may be at risk for every 100 basis point shock movement in interest rates. As of March 31, 2011, the Corporation was within policy limits for every 100 basis point shock movement in interest rates.

**Table of Contents**

**Item 4. Controls and Procedures**

The Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this quarterly report, the Corporation's disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Corporation reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There have been no changes in the Corporation's internal control over financial reporting during the fiscal quarter covered by this quarterly report that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

**Table of Contents**

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

Not applicable.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors as previously disclosed in Part I, Item 1A of the Corporation's Form 10-K for the year ended December 31, 2010.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable.

**Item 3. Defaults Upon Senior Securities and Use of Proceeds**

Not applicable.

**Item 4. Removed and Reserved**

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

See Exhibit Index for a list of the exhibits required by Item 601 of Regulation S-K and filed as part of this report.

**Table of Contents**

**FULTON FINANCIAL CORPORATION AND SUBSIDIARIES**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FULTON FINANCIAL CORPORATION

Date: May 9, 2011

/s/ R. Scott Smith, Jr.  
R. Scott Smith, Jr.

Chairman and Chief Executive Officer

Date: May 9, 2011

/s/ Charles J. Nugent  
Charles J. Nugent

Senior Executive Vice President and

Chief Financial Officer

---

**Table of Contents**

**EXHIBIT INDEX**

**Exhibits Required Pursuant**

**to Item 601 of Regulation S-K**

- 3.1 Articles of Incorporation, as amended and restated, of Fulton Financial Corporation as amended Incorporated by reference to Exhibit 3.1 of the Fulton Financial Corporation Form S-4 Registration Statement filed on October 7, 2005.
- 3.2 Bylaws of Fulton Financial Corporation as amended Incorporated by reference to Exhibit 3.1 of the Fulton Financial Corporation Current Report on Form 8-K dated September 18, 2008.
- 3.3 Certificate of Designations of Fixed Rate Cumulative Preferred Stock, Series A of Fulton Financial Corporation Incorporated by reference to Exhibit 3.1 of the Fulton Financial Corporation Current Report on Form 8-K dated December 23, 2008.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Interactive data file containing the following financial statements formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets at March 31, 2011 and December 31, 2010; (ii) the Consolidated Statements of Income for the three months ended March 31, 2011 and 2010; (iii) the Consolidated Statements of Shareholders' Equity and Comprehensive Income for the three months ended March 31, 2011 and 2010; (iv) the Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and 2010; and, (v) the Notes to Consolidated Financial Statements, tagged as blocks of text. As provided in Rule 406T of Regulation S-T, this interactive data file shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, and shall not be deemed filed or part of any registration statement or prospectus for purposes of Section 11 or 12 under the Securities Act of 1933, or otherwise subject to liability under those sections.