FULTON FINANCIAL CORP
Form 10-Q
November 09, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011, or

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

For the transition period from to

Commission File No. 0-10587
FULTON FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

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

(717) 291-2411
(Registrant's telephone number, including area code)

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common Stock, $2.50 Par Value – 200,013,000 shares outstanding as of October 31, 2011.

FULTON FINANCIAL CORPORATION
FORM 10-Q FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2011
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Item 1. Financial Statements

FULTON FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS

(in thousands, except per-share data)

	September 30, 2011 (unaudited)	December 31, 2010
ASSETS		
Cash and due from banks	$291,870	$198,954
Interest-bearing deposits with other banks	256,360	33,297
Loans held for sale	63,554	83,940
Investment securities:		
Held to maturity (estimated fair value of $6,774 in 2011 and $7,818 in 2010)	6,734	7,751
Available for sale	2,769,823	2,853,733
Loans, net of unearned income	11,895,655	11,933,307
Less: Allowance for loan losses	(266,978)	(274,271)
Net Loans	11,628,677	11,659,036
Premises and equipment	206,170	208,016
Accrued interest receivable	52,460	53,841
Goodwill	535,940	535,518
Intangible assets	9,158	12,461
Other assets	475,105	628,707
Total Assets	$16,295,851	$16,275,254
LIABILITIES		
Deposits:		
Noninterest-bearing	$2,535,744	$2,194,988
Interest-bearing	10,101,880	10,193,593
Total Deposits	12,637,624	12,388,581
Short-term borrowings:		
Federal funds purchased	75,962	267,844
Other short-term borrowings	372,993	406,233
Total Short-Term Borrowings	448,955	674,077
Accrued interest payable	27,678	33,333
Other liabilities	171,430	179,424
Federal Home Loan Bank advances and long-term debt	1,025,505	1,119,450
Total Liabilities	14,311,192	14,394,865
SHAREHOLDERS' EQUITY		
Common stock, $2.50 par value, 600 million shares authorized, 216.0 million shares issued in 2011 and 215.4 million shares issued in 2010	540,000	538,492
Additional paid-in capital	1,423,149	1,420,127
Retained earnings	239,986	158,453
Accumulated other comprehensive income:		
Unrealized gains on investment securities not other-than-temporarily impaired	35,414	22,354
Unrealized non-credit related losses on other-than-temporarily impaired debt securities	(1,064)	(2,355)
Unrecognized pension and postretirement plan costs	(4,451)	(4,414)
Unamortized effective portions of losses on forward-starting interest rate swaps	(2,988)	(3,090)

Accumulated Other Comprehensive Income	26,911	12,495
Treasury stock, 16.1 million shares in 2011 and 16.3 million shares in 2010, at cost	(245,387)	(249,178)
Total Shareholders' Equity	1,984,659	1,880,389
Total Liabilities and Shareholders' Equity	$16,295,851	$16,275,254

See Notes to Consolidated Financial Statements

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

(in thousands, except per-share data)

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
INTEREST INCOME				
Loans, including fees	$149,460	$158,060	$448,707	$473,222
Investment securities:				
Taxable	20,166	22,363	62,722	75,658
Tax-exempt	2,896	3,226	9,217	10,169
Dividends	698	686	2,077	2,075
Loans held for sale	425	919	1,417	2,142
Other interest income	91	102	225	358
Total Interest Income	173,736	185,356	524,365	563,624
INTEREST EXPENSE				
Deposits	19,684	29,755	64,745	95,312
Short-term borrowings	151	267	573	1,206
Long-term debt	12,408	15,148	37,346	49,253
Total Interest Expense	32,243	45,170	102,664	145,771
Net Interest Income	141,493	140,186	421,701	417,853
Provision for credit losses	31,000	40,000	105,000	120,000
Net Interest Income After Provision for Credit Losses	110,493	100,186	316,701	297,853
OTHER INCOME				
Service charges on deposit accounts	15,164	14,752	42,801	44,501
Other service charges and fees	12,507	11,540	36,698	33,174
Investment management and trust services	8,914	8,604	27,756	25,347
Mortgage banking income	7,942	12,399	19,454	20,447
Other	4,777	3,877	14,177	12,194
Total other-than-temporary impairment losses	(509)	(2,428)	(1,601)	(12,013)
Less: Portion of (gain) loss recognized in other comprehensive income (before taxes)	(80)	(387)	(672)	723
Net other-than-temporary impairment losses	(589)	(2,815)	(2,273)	(11,290)
Net gains on sale of investment securities	146	4,641	3,780	11,797
Net investment securities gains (losses)	(443)	1,826	1,507	507
Total Other Income	48,861	52,998	142,393	136,170
OTHER EXPENSES				
Salaries and employee benefits	58,948	54,533	169,326	161,532
Net occupancy expense	10,790	10,519	33,030	32,688
FDIC insurance expense	3,732	4,709	11,750	14,799
Data processing	3,473	3,187	10,059	9,915
Other real estate owned and repossession expense	3,270	2,620	7,815	7,176
Professional fees	3,247	3,040	9,198	8,621
Equipment expense	3,032	2,956	9,541	8,710
Software	2,142	2,039	6,146	5,359
Marketing	1,923	2,601	6,622	6,702
Intangible amortization	953	1,293	3,303	3,948
Other	15,079	15,214	43,840	44,388
Total Other Expenses	106,589	102,711	310,630	303,838
Income Before Income Taxes	52,765	50,473	148,464	130,185

Income taxes	13,441	12,793	38,970	33,343
Net Income	39,324	37,680	109,494	96,842
Preferred stock dividends and discount accretion	—	(6,172)	—	(16,303)
Net Income Available to Common Shareholders	$39,324	$31,508	$109,494	$80,539
PER COMMON SHARE:				
Net income (basic)	$0.20	$0.16	$0.55	$0.43
Net income (diluted)	0.20	0.16	0.55	0.43
Cash dividends	0.05	0.03	0.14	0.09

See Notes to Consolidated Financial Statements

FULTON FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (UNAUDITED)
NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010

		Common Stock						
	Preferred Stock	Shares Outstanding	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
	(in thousands)							
December 31, 2010	$—	199,050	$538,492	$1,420,127	$158,453	$ 12,495	$(249,178)	$1,880,389
Comprehensive income:								
Net income					109,494			109,494
Other comprehensive income						14,416		14,416
Total comprehensive income								123,910
Stock issued, including related tax benefits		841	1,508	(451)			3,791	4,848
Stock-based compensation awards				3,473				3,473
Common stock cash dividends - $0.14 per share					(27,961)			(27,961)
September 30, 2011	$—	199,891	$540,000	$1,423,149	$239,986	$ 26,911	$(245,387)	$1,984,659
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					96,842			96,842
Other comprehensive income						28,332		28,332
Total comprehensive income								125,174
Stock issued, including related tax benefits		22,519	55,751	171,205			3,283	230,239
Stock-based compensation awards				1,428				1,428
Redemption of preferred stock and repurchase of common stock warrant	(376,500)			(10,800)				(387,300)
Preferred stock discount accretion	6,210				(6,210)			—
					(12,498)			(12,498)

Preferred stock cash dividends								
Common stock cash dividends - $0.09 per share					(17,215)			(17,215)
September 30, 2010	$—	198,883	$538,242	$1,419,563	$132,918	$35,790	$(250,203)	$1,876,310

See Notes to Consolidated Financial Statements

FULTON FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Nine Months Ended September 30	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$109,494	$96,842
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	105,000	120,000
Depreciation and amortization of premises and equipment	15,824	15,371
Net amortization of investment securities premiums	2,596	2,916
Investment securities gains	(1,507)	(507)
Net decrease (increase) in loans held for sale	20,386	(17,856)
Amortization of intangible assets	3,303	3,948
Stock-based compensation	3,473	1,428
Decrease in accrued interest receivable	1,381	3,348
Decrease (increase) in other assets	13,599	(9,424)
Decrease in accrued interest payable	(5,655)	(11,194)
Decrease in other liabilities	(18,862)	(17,527)
Total adjustments	139,538	90,503
Net cash provided by operating activities	249,032	187,345
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available for sale	419,803	401,518
Proceeds from maturities of securities held to maturity	388	382
Proceeds from maturities of securities available for sale	440,475	567,825
Purchase of securities held to maturity	(28)	(194)
Purchase of securities available for sale	(616,586)	(467,698)
Increase in short-term investments	(223,063)	(176,830)
Net increase in loans	(74,029)	(70,873)
Net purchases of premises and equipment	(13,978)	(15,169)
Net cash (used in) provided by investing activities	(67,018)	238,961
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand and savings deposits	728,652	892,809
Net decrease in time deposits	(479,609)	(422,606)
Decrease in short-term borrowings	(225,122)	(397,859)
Additions to long-term debt	—	47,900
Repayments of long-term debt	(93,945)	(389,160)
Net proceeds from issuance of stock	4,848	230,239
Redemption of preferred stock and common stock warrant	—	(387,300)
Dividends paid	(23,922)	(29,037)
Net cash used in financing activities	(89,098)	(455,014)
Net Increase (Decrease) in Cash and Due From Banks	92,916	(28,708)
Cash and Due From Banks at Beginning of Period	198,954	284,508
Cash and Due From Banks at End of Period	$291,870	$255,800

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

Interest	$108,319	$156,965
Income taxes	21,216	41,018

See Notes to Consolidated Financial Statements

FULTON FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A – Basis of Presentation

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

NOTE B – Net Income Per Common Share and Other Comprehensive Income

The Corporation's basic net income per common share is calculated as net income available to common shareholders divided by the weighted average number of common shares outstanding. Net income available to common shareholders is calculated as net income less accrued dividends and discount accretion related to preferred stock.
For diluted net income per common share, net income available to common shareholders is divided by the weighted average number of common shares outstanding plus the incremental number of shares added as a result of converting common stock equivalents, calculated using the treasury stock method. The Corporation's common stock equivalents consist of outstanding stock options, restricted stock and common stock warrants. As of September 30, 2011 and September 30, 2010, there were no outstanding common stock warrants.
A reconciliation of weighted average common shares outstanding used to calculate basic net income per common share and diluted net income per common share follows.

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
		(in thousands)		
Weighted average shares outstanding (basic)	199,028	198,282	198,801	188,306
Effect of dilutive securities	786	510	743	529
Weighted average shares outstanding (diluted)	199,814	198,792	199,544	188,835

For the three and nine months ended September 30, 2011, 5.8 million and 5.0 million stock options, respectively, were excluded from the diluted net income per share computation as their effect would have been anti-dilutive. For the three and nine months ended September 30, 2010, 5.8 million and 5.4 million stock options, respectively, were excluded from the diluted net income per share computation as their effects would have been anti-dilutive.

The following table presents the components of other comprehensive income:

	Nine Months Ended September 30	
	2011	2010
	(in thousands)	
Unrealized gain on securities (net of an $8.2 million and $16.4 million tax effect in 2011 and 2010, respectively)	$15,143	$30,390
Non-credit related unrealized gain (loss) on other-than-temporarily impaired debt securities (net of a $100,000 and $1.0 million tax effect in 2011 and 2010, respectively)	187	(1,886)
Unrealized gain on derivative financial instruments (net of a $55,000 tax effect in 2011 and 2010) (1)	102	102
(Accretion) amortization of net unrecognized pension and postretirement items (net of a $19,000 and $30,000 tax effect in 2011 and 2010, respectively)	(37)	55
Reclassification adjustment for securities gains included in net income (net of a $527,000 and $177,000 tax effect in 2011 and 2010, respectively)	(979)	(329)
Other comprehensive income	$14,416	$28,332

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

NOTE C – Investment Securities

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

Held to Maturity at September 30, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
U.S. Government sponsored agency securities	$5,987	$—	$(7)	$5,980
State and municipal securities	179	—	—	179
Mortgage-backed securities	568	47	—	615
	$6,734	$47	$(7)	$6,774
Available for Sale at September 30, 2011				
Equity securities	$123,483	$2,291	$(5,408)	$120,366
U.S. Government securities	1,325	—	—	1,325
U.S. Government sponsored agency securities	4,735	110	(1)	4,844
State and municipal securities	320,969	13,091	—	334,060
Corporate debt securities	130,455	4,892	(12,912)	122,435
Collateralized mortgage obligations	1,078,396	29,212	(353)	1,107,255
Mortgage-backed securities	802,142	36,763	(69)	838,836
Auction rate securities	255,472	283	(15,053)	240,702
	$2,716,977	$86,642	$(33,796)	$2,769,823

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	$—	$(1)	$6,338
State and municipal securities	346	—	—	346
Mortgage-backed securities	1,066	68	—	1,134
	$7,751	$68	$(1)	$7,818
Available for Sale at December 31, 2010				
Equity securities	$133,570	$3,872	$(974)	$136,468
U.S. Government securities	1,649	—	—	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

Securities carried at $1.9 billion as of September 30, 2011 and December 31, 2010 were pledged as collateral to secure public and trust deposits and customer repurchase agreements. Available for sale equity securities include restricted investment securities issued by the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank totaling $85.4 million and $96.4 million as of September 30, 2011 and December 31, 2010, respectively.

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

	Held to Maturity		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)			
Due in one year or less	$6,052	$6,045	$70,852	$71,305
Due from one year to five years	114	114	46,088	47,500
Due from five years to ten years	—	—	127,391	135,592
Due after ten years	—	—	468,625	448,969
	6,166	6,159	712,956	703,366
Collateralized mortgage obligations	—	—	1,078,396	1,107,255
Mortgage-backed securities	568	615	802,142	838,836
	$6,734	$6,774	$2,593,494	$2,649,457

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

	Gross Realized Gains	Gross Realized Losses	Other-than-temporary Impairment Losses	Net Gains (Losses)
	(in thousands)			
Three months ended September 30, 2011				
Equity securities	$146	$—	$(244)	$(98)
Debt securities	—	—	(345)	(345)
Total	$146	$—	$(589)	$(443)
Three months ended September 30, 2010:				
Equity securities	$601	$(391)	$(480)	$(270)
Debt securities	4,485	(54)	(2,335)	2,096
Total	$5,086	$(445)	$(2,815)	$1,826
Nine months ended September 30, 2011				
Equity securities	$194	$—	$(575)	$(381)
Debt securities	3,605	(19)	(1,698)	1,888
Total	$3,799	$(19)	$(2,273)	$1,507
Nine months ended September 30, 2010:				
Equity securities	$1,451	$(391)	$(1,813)	$(753)
Debt securities	10,809	(72)	(9,477)	1,260
Total	$12,260	$(463)	$(11,290)	$507

The other-than-temporary impairment charges for equity securities during the three and nine months ended September 30, 2011 and 2010, respectively, were for investments in stocks of financial institutions. Other-than-temporary impairment charges related to financial institution stocks were due to the severity and duration of the declines in fair values of certain bank stock holdings, in conjunction with management's assessment of the near-term prospects of each specific issuer. As of September 30, 2011, after other-than-temporary impairment charges, the financial institutions stock portfolio had a cost basis of $31.1 million and a fair value of $27.9 million.

The credit related other-than-temporary impairment charges for debt securities during the three and nine months ended September 30, 2011, included $53,000 and $1.4 million, respectively, for investments in pooled trust preferred securities issued by financial institutions. In addition, during the third quarter of 2011, the Corporation recorded $292,000 of other-than-temporary impairment charges for investments in student loan auction rate securities, also known as auction rate certificates (ARCs). The credit related other-than-temporary impairment charges for debt securities during the three and nine months ended September 30, 2010 were for investments in pooled trust preferred securities issued by financial institutions. Other-than-temporary impairment charges related to debt securities were determined based on expected cash flows models.

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
	(in thousands)			
Balance of cumulative credit losses on debt securities, beginning of period	$(28,876)	$(22,754)	$(27,560)	$(15,612)
Additions for credit losses recorded which were not previously recognized as components of earnings	(345)	(2,335)	(1,698)	(9,477)
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	40	21	77	21
Balance of cumulative credit losses on debt securities, end of period	$(29,181)	$(25,068)	$(29,181)	$(25,068)

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

	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(in thousands)					
U.S. Government sponsored agency securities	$5,401	$(7)	$175	$(1)	$5,576	$(8)
Corporate debt securities	16,909	(1,060)	41,371	(11,852)	58,280	(12,912)
Collateralized mortgage obligations	101,324	(353)	—	—	101,324	(353)
Mortgage-backed securities	26,100	(69)	—	—	26,100	(69)
Auction rate securities	37,059	(1,915)	182,341	(13,138)	219,400	(15,053)
Total debt securities	186,793	(3,404)	223,887	(24,991)	410,680	(28,395)
Equity securities	13,747	(4,951)	1,316	(457)	15,063	(5,408)
	$200,540	$(8,355)	$225,203	$(25,448)	$425,743	$(33,803)

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 September 30, 2011 to be other-than-temporarily impaired.

The unrealized holding losses on 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 noted above, during the three months ended September 30, 2011, the Corporation recorded $292,000 of other-than-temporary impairment charges for two individual ARCs based on an expected cash flows model. After other-than-temporary impairment charges, the two other-than-temporarily impaired ARCs had a cost basis of $1.6 million and a fair value of $1.1 million. These other-than-temporarily impaired ARCs have principal payments supported by non-guaranteed private student loans, as opposed to Federally guaranteed student loans. In addition, the student loans underlying these other-than-temporarily impaired ARCs had actual defaults of approximately 16%, resulting in an erosion of parity levels, or the ratio of total underlying ARC collateral to total bond values, to approximately 85% as of September 30, 2011.

As of September 30, 2011, approximately $192 million, or 80%, of the ARCs were rated above investment grade, with approximately $144 million, or 60%, AAA rated. Approximately $49 million, or 20%, of ARCs were rated below investment grade by at least one ratings agency or were not rated. Of this amount, approximately $28 million, or 58%, of the student loans underlying the ARCs have principal payments which are guaranteed by the Federal government. In total, approximately $214 million, or 89%, of the student loans underlying the ARCs have principal payments which are guaranteed by the Federal government. As of September 30, 2011, all ARCs were current and making scheduled interest payments. Based on management’s evaluations, ARCs with a fair value of $241 million were not subject to any additional other-than-temporary impairment charges as of September 30, 2011. The Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, which may be maturity.

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

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

	September 30, 2011		December 31, 2010	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
	(in thousands)			
Single-issuer trust preferred securities	$86,366	$77,861	$91,257	$81,789
Subordinated debt	35,080	36,754	34,995	35,915
Pooled trust preferred securities	6,464	5,275	8,295	4,528
Corporate debt securities issued by financial institutions	127,910	119,890	134,547	122,232
Other corporate debt securities	2,545	2,545	2,554	2,554
Available for sale corporate debt securities	$130,455	$122,435	$137,101	$124,786

The Corporation's investments in single-issuer trust preferred securities had an unrealized loss of $8.5 million at September 30, 2011. The Corporation did not record any other-than-temporary impairment charges for single-issuer trust preferred securities during the three or nine months ended September 30, 2011 or 2010, respectively. The Corporation held 13 single-issuer trust preferred securities that were rated below investment grade by at least one ratings agency, with an amortized cost of $42.1 million and an estimated fair value of $38.7 million at September 30, 2011. The majority of the single-issuer trust preferred securities rated below investment grade were rated BB or Baa. Single-issuer trust preferred securities with an amortized cost of $10.8 million and an estimated fair value of $9.0 million at September 30, 2011 were not rated by any ratings agency.

The Corporation holds ten pooled trust preferred securities. As of September 30, 2011, nine of these securities, with an amortized cost of $5.8 million and an estimated fair value of $4.7 million, were rated below investment grade by at least one ratings agency, with ratings ranging from C to Ca. For each of the nine pooled trust preferred securities rated below investment grade, the class of securities held by the Corporation 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 September 30, 2011. The discounted cash flow modeling for pooled trust preferred securities held by the Corporation as of September 30, 2011 assumed, on average, an additional 19% expected deferral rate.

Based on management's evaluations, corporate debt securities with a fair value of $122.4 million were not subject to any additional other-than-temporary impairment charges as of September 30, 2011. The Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, which may be maturity.

NOTE D – Loans and Allowance for Credit Losses

Loans, Net of Unearned Income

Loans, net of unearned income are summarized as follows:

	September 30, 2011	December 31, 2010
	(in thousands)	
Real-estate – commercial mortgage	$4,491,155	$4,375,980
Commercial – industrial, financial and agricultural	3,690,164	3,704,384
Real-estate – home equity	1,630,880	1,641,777
Real-estate – residential mortgage	1,041,463	995,990
Real-estate – construction	648,398	801,185
Consumer	327,054	350,161
Leasing and other	59,337	61,017
Overdrafts	13,646	10,011
Loans, gross of unearned income	11,902,097	11,940,505
Unearned income	(6,442)	(7,198)
Loans, net of unearned income	$11,895,655	$11,933,307

Allowance for Credit Losses

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

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

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

- Change in the identification of loans evaluated individually for impairment – The population of loans evaluated individually for impairment was revised to include only loans on non-accrual status and impaired troubled debt restructurings (Impaired TDRs). Impaired TDRs represent TDRs that were: (1) modified via a change in the interest rate that, at the time of restructuring, was favorable in comparison to rates offered for loans with similar risk characteristics; or (2) 90 days or more past due according to their modified terms; or (3) modified in the current year.

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

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

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

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

As of September 30, 2011, approximately 83% of impaired loans with principal balances greater than $1.0 million, whose primary collateral is real estate, were measured at estimated fair value using certified third-party appraisals that had been updated within the preceding 12 months. In comparison, as of March 31, 2011 and December 31, 2010, approximately 57% and 52%, respectively, of impaired loans with principal balances greater than $1.0 million, whose primary collateral is real estate, were measured at estimated fair value using certified third-party appraisals that had been updated within the preceding 12 months.

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

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

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

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

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

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

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

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

	September 30, 2011	December 31, 2010
	(in thousands)	
Allowance for loan losses	$266,978	$274,271
Reserve for unfunded lending commitments	1,839	1,227
Allowance for credit losses	$268,817	$275,498

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
	(in thousands)			
Balance at beginning of period	$268,633	$280,377	$275,498	$257,553
Loans charged off	(32,897)	(38,797)	(119,101)	(100,321)
Recoveries of loans previously charged off	2,081	3,294	7,420	7,642
Net loans charged off	(30,816)	(35,503)	(111,681)	(92,679)
Provision for credit losses	31,000	40,000	105,000	120,000
Balance at end of period	$268,817	$284,874	$268,817	$284,874

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

	Real Estate - Commercial Mortgage	Commercial - Industrial, Financial and Agricultural	Real Estate - Home Equity	Real Estate - Residential Mortgage	Real Estate - Construction	Consumer	Leasing and other and Overdrafts	Unallocated	Total
	(in thousands)								
Three months ended September 30, 2011									
Balance at July 1, 2011	$73,598	$ 82,613	$ 9,560	$ 31,912	$ 30,570	$ 1,755	$ 1,787	$ 34,888	$266,683
Loans charged off	(5,730)	(14,840)	(1,158)	(1,514)	(8,535)	(634)	(486)	—	(32,897)
Recoveries of loans previously charged off	249	695	23	36	595	291	192	—	2,081
Net loans charged off	(5,481)	(14,145)	(1,135)	(1,478)	(7,940)	(343)	(294)	—	(30,816)
Provision for loan losses (1)	13,066	11,669	1,418	2,902	10,415	2,990	768	(12,117)	31,111
Balance at September 30, 2011	$81,183	$ 80,137	$ 9,843	$ 33,336	$ 33,045	$ 4,402	$ 2,261	$ 22,771	$266,978
Nine months ended September 30, 2011									
Balance at January 1, 2011	$40,831	$ 101,436	$ 6,454	$ 17,425	$ 58,117	$ 4,669	$ 3,840	$ 41,499	$274,271

Loans charged off	(22,851)	(43,582)	(4,276)	(14,217)	(29,897)	(2,606)	(1,672)	—	(119,101)
Recoveries of loans previously charged off	1,975	2,089	26	270	1,237	1,033	790	—	7,420
Net loans charged off	(20,876)	(41,493)	(4,250)	(13,947)	(28,660)	(1,573)	(882)	—	(111,681)
Provision for loan losses	38,345	33,582	3,949	21,962	28,359	4,382	247	(26,438)	104,388
Impact of change in allowance methodology	22,883	(13,388)	3,690	7,896	(24,771)	(3,076)	(944)	7,710	—
Provision for loan losses, including impact of change in allowance methodology (1)	61,228	20,194	7,639	29,858	3,588	1,306	(697)	(18,728)	104,388
Balance at September 30, 2011	$81,183	$ 80,137	$ 9,843	$ 33,336	$ 33,045	$ 4,402	$ 2,261	$ 22,771	$266,978

(1) Provision for loan losses is net of a $111,000 decrease and $612,000 increase in provision applied to unfunded commitments for the three and nine months ended September 30, 2011, respectively. The total provision for credit losses, comprised of allocations for both funded and unfunded loans, was $31.0 million and $105.0 million for the three and nine months ended September 30, 2011, respectively.

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

	Real Estate - Commercial Mortgage	Commercial - Industrial, Financial and Agricultural	Real Estate - Home Equity	Real Estate - Residential Mortgage	Real Estate - Construction	Consumer	Leasing and other and Overdrafts	Unallocated (1)	Total
	(in thousands)								
Allowance for loan losses at September 30, 2011:									
Evaluated collectively for impairment under FASB ASC Subtopic 450-20	$47,914	$51,510	$9,843	$7,142	$20,480	$1,773	$2,205	$22,771	$163,638
Evaluated individually for impairment under FASB ASC Section 310-10-35	33,269	28,627	—	26,194	12,565	2,629	56	N/A	103,340
	$81,183	$80,137	$9,843	$33,336	$33,045	$4,402	$2,261	$22,771	$266,978
Loans, net of unearned income at September 30, 2011:									
Evaluated collectively for impairment under FASB ASC Subtopic 450-20	$4,377,383	$3,603,914	$1,630,880	$975,463	$596,581	$322,113	$66,455	N/A	$11,572,789
Evaluated individually for impairment under FASB ASC Section 310-10-35	113,772	86,250	—	66,000	51,817	4,941	86	N/A	322,866
	$4,491,155	$3,690,164	$1,630,880	$1,041,463	$648,398	$327,054	$66,541	N/A	$11,895,655
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	—	5,950	22,870	—	—	N/A	115,928
	$40,831	$101,436	$6,454	$17,425	$58,117	$4,669	$3,840	$41,499	$274,271

Loans, net of unearned income at December 31, 2010:									
Evaluated collectively for impairment under FASB ASC Subtopic 450-20	$4,217,660	$3,469,775	$1,641,777	$956,260	$660,238	$350,161	$63,830	N/A	$11,359,701
Evaluated individually for impairment under FASB ASC Section 310-10-35	158,320	234,609	—	39,730	140,947	—	—	N/A	573,606
	$4,375,980	$3,704,384	$1,641,777	$995,990	$801,185	$350,161	$63,830	N/A	$11,933,307

(1) The Corporation's unallocated allowance, which was approximately 9% and 15% as of September 30, 2011 and December 31, 2010, respectively, was reasonable and appropriate as the estimates used in the allocation process are inherently imprecise.

N/A – Not applicable.

Impaired Loans

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

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. Impaired loans with balances greater than $1.0 million are evaluated individually for impairment. As of September 30, 2011 and December 31, 2010, substantially all of the Corporation's individually evaluated impaired loans were measured based on the estimated fair value of each loan's collateral. Collateral could be in the form of real estate in the case of impaired commercial mortgages, construction loans and residential mortgages, or business assets, such as accounts receivable or inventory, in the case of commercial loans. Commercial loans may also be secured by real property.

Impaired loans with balances less than $1.0 million are pooled and measured for impairment based on a statistical model which applies PDs and LGDs based on actual losses as loans migrate through the various risk rating or delinquency categories. These loans are included within the detail of impaired loans below.

The following table presents total impaired loans by class segment:

	September 30, 2011			Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011		December 31, 2010		
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized (1)	Average Recorded Investment	Interest Income Recognized	Unpaid Principal Balance	Recorded Investment	Related Allowance
	(in thousands)									
With no related allowance recorded:										
Real estate - commercial mortgage	$46,841	$39,132	N/A	$40,448	$78	$43,915	$568	$68,583	$54,251	N/A
Commercial - secured	37,193	33,334	N/A	34,474	10	31,426	171	38,366	27,745	N/A
Commercial - unsecured	300	297	N/A	149	—	221	3	710	587	N/A
Real estate - residential mortgage	—	—	N/A	—	—	5,303	43	21,598	21,212	N/A
Construction - commercial residential	43,455	19,617	N/A	18,528	1	23,154	185	69,624	32,354	N/A
Construction - commercial	2,607	2,318	N/A	2,902	—	2,911	21	5,637	2,125	N/A
Consumer - direct	199	199	N/A	100	—	50	—	—	—	N/A
	130,595	94,897		96,601	89	106,980	991	204,518	138,274	
With a related allowance recorded:										
Real estate - commercial mortgage	93,967	74,640	$33,269	73,076	140	79,898	1,129	111,190	104,069	$17,995
Commercial - secured	62,315	51,078	27,410	51,851	14	86,061	1,213	202,824	197,674	64,922
Commercial - unsecured	1,874	1,541	1,217	2,231	1	4,132	34	8,681	8,603	4,191
Real estate - residential mortgage	66,000	66,000	26,194	66,892	462	57,033	1,039	18,518	18,518	5,950
Construction - commercial residential	50,861	27,751	11,493	31,132	1	53,004	449	110,465	103,826	22,155
Construction - commercial	3,303	1,132	511	718	—	1,100	17	2,642	2,642	715
	999	999	561	1,556	—	1,093	—	—	—	—

Construction - other										
Consumer - direct	4,742	4,742	2,629	2,477	—	1,260	2	—	—	—
Leasing and other and Overdrafts	86	86	56	89	—	60	—	—	—	—
	284,147	227,969	103,340	230,022	618	283,641	3,883	454,320	435,332	115,928
Total	$414,742	$322,866	$103,340	$326,623	$707	$390,621	$4,874	$658,838	$573,606	$115,928

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

N/A – Not applicable.

As of September 30, 2011 and December 31, 2010, there were $94.9 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 their carrying amount 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.

Credit Quality Indicators and Non-performing Assets

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

	Pass		Special Mention		Substandard or Lower		Total	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
	(in thousands)							
Real estate - commercial mortgage	$3,953,387	$3,776,714	$214,970	$ 306,926	$322,798	$ 292,340	$4,491,155	$4,375,980
Commercial - secured	2,986,086	2,903,184	175,459	244,927	295,096	323,187	3,456,641	3,471,298
Commercial -unsecured	218,244	211,298	3,951	14,177	11,328	7,611	233,523	233,086
Total Commercial - industrial, financial and agricultural	3,204,330	3,114,482	179,410	259,104	306,424	330,798	3,690,164	3,704,384
Construction - commercial residential	176,628	251,159	39,947	84,774	143,791	156,966	360,366	492,899
Construction - commercial	213,309	222,357	7,691	10,221	12,633	11,859	233,633	244,437
Total Real estate - construction (excluding Construction - other)	389,937	473,516	47,638	94,995	156,424	168,825	593,999	737,336
	$7,547,654	$7,364,712	$442,018	$ 661,025	$785,646	$ 791,963	$8,775,318	$8,817,700

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

	Performing		Delinquent (1)		Non-performing (2)		Total	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
	(in thousands)							
Real estate - home equity	$1,606,705	$1,619,684	$12,078	$ 11,905	$12,097	$ 10,188	$1,630,880	$1,641,777
Real estate - residential mortgage	961,912	909,247	31,465	36,331	48,086	50,412	1,041,463	995,990
Real estate - construction - other	49,580	60,956	3,431	—	1,388	2,893	54,399	63,849
Consumer - direct	36,326	45,942	681	935	347	212	37,354	47,089
Consumer - indirect	155,555	166,531	2,085	2,275	125	290	157,765	169,096
Consumer - other	126,594	129,911	3,199	2,413	2,142	1,652	131,935	133,976
Total Consumer	318,475	342,384	5,965	5,623	2,614	2,154	327,054	350,161
	65,666	63,087	763	516	112	227	66,541	63,830

Leasing and other and Overdrafts								
	$3,002,338	$2,995,358	$53,702	$54,375	$64,297	$65,874	$3,120,337	$3,115,607

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

The following table presents non-performing assets:

	September 30, 2011	December 31, 2010
	(in thousands)	
Non-accrual loans	$269,176	$280,688
Loans 90 days past due and accruing	41,427	48,084
Total non-performing loans	310,603	328,772
Other real estate owned (OREO)	37,399	32,959
Total non-performing assets	$348,002	$361,731

Effective July 1, 2011, the Corporation adopted the provisions of 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 was effective for the first interim or annual period beginning on or after June 15, 2011, and was applied retrospectively to January 1, 2011. The adoption of ASC Update 2011-02 did not impact the Corporation’s financial statements.

The following table presents TDRs, by class segment:

	September 30, 2011	December 31, 2010
	(in thousands)	
Real-estate – residential mortgage	$36,113	$37,826
Real-estate – commercial mortgage	23,419	18,778
Real-estate – construction	5,871	5,440
Commercial – industrial, financial and agricultural	2,229	5,502
Consumer	194	263
Total accruing TDRs	67,826	67,809
Non-accrual TDRs (1)	49,432	51,175
Total TDRs	$117,258	$118,984

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

As of September 30, 2011 and December 31, 2010, there were $169,000 and $1.6 million, respectively, of commitments to lend additional funds to borrowers whose loans were modified under TDRs.

The following table presents loans modified as TDRs during the three and nine months ended September 30, 2011 by class segment:

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(dollars in thousands)			
Construction - commercial residential	2	$5,792	2	$5,792
Real estate - commercial mortgage	8	2,702	20	16,482
Commercial - secured	5	925	7	1,947
Real estate - residential mortgage	1	217	12	3,088
	16	$9,636	41	$27,309

The following table presents loans modified as TDRs within the previous 12 months which had a payment default during the three and nine months ended September 30, 2011, by class segment:

	Three Months Ended September 30, 2011		Nine Months Ended September 30, 2011	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(dollars in thousands)			
Construction - commercial residential	2	$5,792	2	$5,792
Real estate - commercial mortgage	2	1,134	11	11,873
Real estate - residential mortgage	1	217	9	1,977
Commercial - secured	—	—	1	23
	5	$7,143	23	$19,665

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

	September 30, 2011							
	31-59 Days Past Due	60-89 Days Past Due	≥ 90 Days Past Due and Accruing	Non-accrual	Total ≥ 90 Days	Total Past Due	Current	Total
	(in thousands)							
Real estate - commercial mortgage	$24,083	$13,672	$4,890	$98,038	$102,928	$140,683	$4,350,472	$4,491,155
Commercial - secured	10,365	9,471	7,879	82,602	90,481	110,317	3,346,324	3,456,641
Commercial - unsecured	755	313	66	1,838	1,904	2,972	230,551	233,523
Total Commercial - industrial, financial and agricultural	11,120	9,784	7,945	84,440	92,385	113,289	3,576,875	3,690,164
Real estate - home equity	9,369	2,709	7,432	4,665	12,097	24,175	1,606,705	1,630,880
Real estate - residential mortgage	19,744	11,721	17,975	30,111	48,086	79,551	961,912	1,041,463
Construction - commercial residential	1,315	3,285	432	47,111	47,543	52,143	308,223	360,366
Construction - commercial	122	128	—	3,450	3,450	3,700	229,933	233,633
Construction - other	3,431	—	390	998	1,388	4,819	49,580	54,399
Total Real estate - construction	4,868	3,413	822	51,559	52,381	60,662	587,736	648,398
Consumer - direct	478	203	70	277	347	1,028	36,326	37,354
Consumer - indirect	1,741	344	125	—	125	2,210	155,555	157,765
Consumer - other	1,992	1,207	2,142	—	2,142	5,341	126,594	131,935
Total Consumer	4,211	1,754	2,337	277	2,614	8,579	318,475	327,054
Leasing and other and Overdrafts	548	215	26	86	112	875	65,666	66,541
	$73,943	$43,268	$41,427	$269,176	$310,603	$427,814	$11,467,841	$11,895,655

	December 31, 2010							
	31-59 Days Past Due	60-89 Days Past Due	≥ 90 Days Past Due and Accruing	Non-accrual	Total ≥ 90 Days	Total Past Due	Current	Total
	(in thousands)							
Real estate - commercial mortgage	$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	—	—	195	5,092	5,287	5,287	239,150	244,437
Construction - other	—	—	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	—	212	1,147	45,942	47,089
Consumer - indirect	1,916	359	290	—	290	2,565	166,531	169,096
Consumer - other	1,751	662	1,638	14	1,652	4,065	129,911	133,976
Total Consumer	4,374	1,249	2,140	14	2,154	7,777	342,384	350,161
Leasing and other and Overdrafts	473	43	155	72	227	743	63,087	63,830
	$62,895	$36,435	$48,084	$280,688	$328,772	$428,102	$11,505,205	$11,933,307

NOTE E – Mortgage Servicing Rights

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
	(in thousands)			
Amortized cost:				
Balance at beginning of period	$32,809	$25,327	$30,700	$23,498
Originations of mortgage servicing rights	2,213	3,197	6,881	6,870
Amortization expense	(1,343)	(998)	(3,902)	(2,842)
Balance at end of period	$33,679	$27,526	$33,679	$27,526
Valuation allowance:				
Balance at beginning of period	$(1,550)	$(1,000)	$(1,550)	$(1,000)
Additions	—	(550)	—	(550)
Balance at end of period	$(1,550)	$(1,550)	$(1,550)	$(1,550)
Net MSRs at end of period	$32,129	$25,976	$32,129	$25,976

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

The Corporation estimates the fair value of its MSRs by discounting the estimated cash flows from servicing income, net of expense, over the expected life of the underlying loans at a discount rate commensurate with the risk associated with these assets. Expected life is based on the contractual terms of the loans, as adjusted for prepayment projections for mortgage-backed securities with rates and terms comparable to the loans underlying the MSRs.

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

NOTE F – Stock-Based Compensation

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

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
	(in thousands)			
Stock-based compensation expense	$2,372	$817	$3,473	$1,428
Tax benefit	(746)	(192)	(1,001)	(320)
Stock-based compensation expense, net of tax	$1,626	$625	$2,472	$1,108

Stock option fair values are estimated on the date of grant through the use of the Black-Scholes valuation methodology. 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 have historically been granted annually on July 1, 2011st and become fully vested over or after a three-year vesting period. Certain events, as defined in the Employee Option Plan, result in the acceleration of the vesting of both stock options and restricted stock. As of September 30, 2011, the Employee Option

Plan had 12.2 million shares reserved for future grants through 2013. On July 1, 2011, the Corporation granted approximately 616,000 stock options and 317,000 shares of restricted stock under its Employee

Option Plan.

On July 1, 2011, the Corporation also granted approximately 11,000 shares of restricted stock to non-employee directors of the holding company under its 2011 Directors' Equity Participation Plan (Directors' Plan) that become fully vested after one year. Under the Directors' Plan, the Corporation can grant equity awards to non-employee holding company and affiliate directors in the form of stock options, restricted stock or common stock. As of September 30, 2011, the Directors' Plan had 489,000 shares reserved for future grants through 2021.

NOTE G – Employee Benefit Plans

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

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

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

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

	Pension Plan			
	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
	(in thousands)			
Service cost (1)	$15	$26	$45	$78
Interest cost	853	842	2,559	2,526
Expected return on plan assets	(837)	(802)	(2,511)	(2,406)
Net amortization and deferral	72	119	216	357
Net periodic benefit cost	$103	$185	$309	$555

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

	Postretirement Plan			
	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
	(in thousands)			
Service cost	$50	$48	$151	$146
Interest cost	107	110	321	330
Expected return on plan assets	(1)	(1)	(3)	(3)
Net accretion and deferral	(91)	(91)	(273)	(273)
Net periodic benefit cost	$65	$66	$196	$200

NOTE H – Derivative Financial Instruments

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

hedge the effect of changes in interest rates on the values of both the interest rate locks and mortgage loans held for sale. Forward sales commitments may also be in the form of commitments to sell individual mortgage loans at a fixed price on a future date. Both the interest rate locks and the forward commitments are accounted for as derivative financial instruments and are carried at fair value, determined as the amount that would be necessary to settle each derivative financial instrument at the balance sheet date. The amount necessary to

settle each interest rate lock is based on the price that secondary market investors would pay for loans with similar characteristics, including interest rate and term, as of the date fair value is measured. Gross derivative assets and liabilities are recorded within other assets and other liabilities, respectively, on the consolidated balance sheets.
The following table presents a summary of the notional amounts and fair values of derivative financial instruments recorded on the consolidated balance sheets, none of which have been designated as hedging instruments:

	September 30, 2011		December 31, 2010	
	Notional Amount	Asset (Liability) Fair Value	Notional Amount	Asset (Liability) Fair Value
	(in thousands)			
Interest Rate Locks with Customers:				
Positive fair values	$287,898	$6,947	$140,682	$777
Negative fair values	3,154	(26)	50,527	(760)
Net Interest Rate Locks with Customers		6,921		17
Forward Commitments:				
Positive fair values	5,180	5	558,861	8,479
Negative fair values	297,192	(5,643)	—	—
Net Forward Commitments		(5,638)		8,479
Net derivative fair value asset		$1,283		$8,496

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2011	2010	2011	2010
	(in thousands)			
Interest rate locks with customers	$4,902	$3,764	$6,904	$6,285
Forward commitments	(4,794)	2,005	(14,117)	(4,171)
Fair value gains (losses) on derivative financial instruments	$108	$5,769	$(7,213)	$2,114

Fair value gains and losses represent the changes in the fair values of derivative financial instruments during the period and are recognized on the consolidated statements of income as components of mortgage banking income. The other components of mortgage banking income are gains and losses on sales of mortgage loans, fair value adjustments on mortgage loans held for sale, gains and losses on the settlement of forward commitments, and net servicing income.

NOTE I – Commitments and Contingencies

Commitments

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

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

	September 30, 2011	December 31, 2010
	(in thousands)	
Commitments to extend credit	$3,856,706	$3,780,824
Standby letters of credit	443,144	489,097
Commercial letters of credit	25,256	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. 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.

As of September 30, 2011, the reserve for losses on the potential repurchase of loans was $1.5 million. As of December 31, 2010, the reserve for losses on the potential repurchase of loans was $3.3 million.

Management believes that the reserves recorded as of September 30, 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

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

NOTE J – Fair Value Option

FASB ASC Subtopic 825-10 permits entities to measure many financial instruments and certain other items at fair value and requires certain disclosures for amounts for which the fair value option is applied. The Corporation 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 H, "Derivative Financial Instruments." The Corporation determines fair value for its mortgage loans held for sale based on the price that secondary market investors would pay for loans with similar characteristics, including interest rate and term, as of the date fair value is measured. Changes in fair value during the period are recorded as components of 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:

	September 30, 2011	December 31, 2010
	(in thousands)	
Cost	$60,902	$84,604
Fair value	63,554	83,940

During the three and nine months ended September 30, 2011, the Corporation recorded gains related to changes in fair values of mortgage loans held for sale of $1.5 million and $3.3 million, respectively. For the three months ended September 30, 2010, the Corporation recorded losses related to changes in fair values of mortgage loans held for sale of $257,000. For the nine months ended September 30, 2010, the Corporation recorded gains related to changes in fair values of mortgage loans held for sale of $2.1 million.

NOTE K – Fair Value Measurements

FASB ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into the following three categories (from highest to lowest priority):

- Level 1 – Inputs that represent quoted prices for identical instruments in active markets.
- Level 2 – Inputs that represent quoted prices for similar instruments in active markets, or quoted prices for identical instruments in non-active markets. Also includes valuation techniques whose inputs are derived principally from observable market data other than quoted prices, such as interest rates or other market-corroborated means.
- Level 3 – Inputs that are largely unobservable, as little or no market data exists for the instrument being valued.

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

In January 2010, the FASB issued ASC Update No. 2010-06, "Improving Disclosures About Fair Value Measurements" (ASC Update 2010-06). 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:

	September 30, 2011			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Mortgage loans held for sale	$—	$63,554	$—	$63,554
Available for sale investment securities:				
Equity securities	34,983	—	—	34,983
U.S. Government securities	—	1,325	—	1,325
U.S. Government sponsored agency securities	—	4,844	—	4,844
State and municipal securities	—	334,060	—	334,060
Corporate debt securities	—	110,577	11,858	122,435
Collateralized mortgage obligations	—	1,107,255	—	1,107,255
Mortgage-backed securities	—	838,836	—	838,836
Auction rate securities	—	—	240,702	240,702
Total available for sale investments	34,983	2,396,897	252,560	2,684,440
Other financial assets	12,892	6,952	—	19,844
Total assets	$47,875	$2,467,403	$252,560	$2,767,838
Other financial liabilities	$12,892	$5,669	$—	$18,561

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Mortgage loans held for sale	$—	$83,940	$—	$83,940
Available for sale investment securities:				
Equity securities	40,070	—	—	40,070
U.S. Government securities	—	1,649	—	1,649
U.S. Government sponsored agency securities	—	5,058	—	5,058
State and municipal securities	—	349,563	—	349,563
Corporate debt securities	—	111,675	13,111	124,786
Collateralized mortgage obligations	—	1,104,058	—	1,104,058
Mortgage-backed securities	—	871,472	—	871,472
Auction rate securities	—	—	260,679	260,679
Total available for sale investments	40,070	2,443,475	273,790	2,757,335
Other financial assets	13,582	9,256	—	22,838
Total assets	$53,652	$2,536,671	$273,790	$2,864,113
Other financial liabilities	$13,582	$760	$—	$14,342

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

- Mortgage loans held for sale – This category consists of mortgage loans held for sale that the Corporation has elected to measure at fair value. Fair values as of September 30, 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 ($27.9 million at September 30, 2011 and $33.1 million at December 31, 2010) and other equity investments ($7.1 million at September 30, 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 ($85.4 million at September 30, 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 ($36.7 million at September 30, 2011 and $35.9 million at December 31, 2010), single-issuer trust preferred securities issued by financial institutions ($77.9 million at September 30, 2011 and $81.8 million at December 31, 2010), pooled trust preferred securities issued by financial institutions ($5.3 million at September 30, 2011 and $4.5 million at December 31, 2010) and other corporate debt issued by non-financial institutions ($2.5 million at September 30, 2011 and $2.6 million at December 31, 2010).

Classified as Level 2 investments are the Corporation's subordinated debt, other corporate debt issued by non-financial institutions and $71.3 million and $73.2 million of single-issuer trust preferred securities held at September 30, 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 ($6.6 million at September 30, 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 markets for similar investments.

- Auction rate securities – Due to their illiquidity, ARCs are classified as Level 3 investments and are valued through the use of an expected cash flows model prepared by a third-party valuation expert. The assumptions used in preparing the expected cash flows model include estimates for coupon rates, time to maturity and market rates of return. The expected cash flows model the Corporation obtains from 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 H, "Derivative Financial Instruments," for additional information.
- Other financial liabilities – Included within this category are: Level 1 employee deferred compensation liabilities which represent amounts due to employees under the deferred compensation plans described under the heading "Other financial assets" above and Level 2 mortgage banking derivatives, described under the heading "Other financial assets" above.

The following tables present the changes in the Corporation's assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) for the three and nine months ended September 30, 2011 and 2010:

	Three months ended September 30, 2011		
	Available for Sale Investment Securities		
	Pooled Trust Preferred Securities	Single-issuer Trust Preferred Securities	ARC Investments
	(in thousands)		
Balance, June 30, 2011	$5,433	$7,819	$255,142
Realized adjustment to fair value (2)	(53)	—	(292)
Unrealized adjustment to fair value (3)	12	(1,235)	(14,660)
Redemptions	(117)	—	(318)
(Premium amortization) discount accretion (4)	—	(1)	830
Balance, September 30, 2011	$5,275	$6,583	$240,702
	Three months ended September 30, 2010		
Balance, June 30, 2010	$4,279	$8,085	$276,539
Realized adjustment to fair value (2)	(2,335)	—	—
Unrealized adjustment to fair value (3)	2,805	466	(704)
Sales	—	—	(10,233)
Redemptions	(328)	—	(1,470)
(Premium amortization) discount accretion (4)	20	—	1,163
Balance, September 30, 2010	$4,441	$8,551	$265,295

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	Nine months ended September 30, 2011		
	Available for Sale Investment Securities		
	Pooled Trust Preferred Securities	Single-issuer Trust Preferred Securities	ARC Investments
	(in thousands)		
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)	(1,406)	—	(292)
Unrealized adjustment to fair value (3)	2,564	(1,197)	(22,139)
Redemptions	(409)	—	(569)
(Premium amortization) discount accretion (4)	(2)	(3)	3,023
Balance, September 30, 2011	$5,275	$6,583	$240,702
	Nine months ended September 30, 2010		
Balance, December 31, 2009	$4,979	$6,981	$289,203
Transfer to Level 3 from Level 2 (1)	—	650	—
Realized adjustment to fair value (2)	(9,477)	—	—
Unrealized adjustment to fair value (3)	9,258	919	(4,346)
Sales	—	—	(15,266)
Redemptions	(328)	—	(7,852)
(Premium amortization) discount accretion (4)	9	1	3,556
Balance, September 30, 2010	$4,441	$8,551	$265,295

(1) During the nine months ended September 30, 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 September 30, 2011, the fair value of this security was measured 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 and ARCs, realized adjustments to fair value represent credit related other-than-temporary impairment charges that were recorded as a reduction to investment securities gains (losses) on the consolidated statements of income.

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

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

Items Measured at Fair Value on a Nonrecurring Basis

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

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

	September 30, 2011			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Net loans	$—	$—	$219,526	$219,526
Other financial assets	—	—	69,528	69,528
Total assets	$—	$—	$289,054	$289,054
Reserve for unfunded commitments	$—	$—	$1,839	$1,839

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Net loans	$—	$—	$457,678	$457,678
Other financial assets	—	—	62,109	62,109
Total assets	$—	$—	$519,787	$519,787
Reserve for unfunded commitments	$—	$—	$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 evaluated for impairment under FASB ASC Section 310-10-35 and have been classified as Level 3 assets. The amount shown is the balance of impaired loans, net of the related allowance for loan losses. See Note D, “Loans and Allowance for Credit Losses,” for additional details.
- Other financial assets – This category includes OREO ($37.4 million at September 30, 2011 and $33.0 million at December 31, 2010) and MSRs, net of the MSR valuation reserve ($32.1 million at September 30, 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.

- Reserve for unfunded commitments – This Level 3 liability represents management’s estimate of losses associated with unused commitments to extend credit. 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 September 30, 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. The aggregate fair value amounts presented do not necessarily represent management’s estimate of the underlying value of the Corporation.

	September 30, 2011		December 31, 2010	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
	(in thousands)			
FINANCIAL ASSETS				
Cash and due from banks	$291,870	$291,870	$198,954	$198,954
Interest-bearing deposits with other banks	256,360	256,360	33,297	33,297
Loans held for sale (1)	63,554	63,554	83,940	83,940
Securities held to maturity	6,734	6,774	7,751	7,818
Securities available for sale (1)	2,769,823	2,769,823	2,853,733	2,853,733
Loans, net of unearned income (1)	11,895,655	11,875,115	11,933,307	11,909,539
Accrued interest receivable	52,460	52,460	53,841	53,841
Other financial assets (1)	140,385	140,385	230,044	230,044
FINANCIAL LIABILITIES				
Demand and savings deposits	$8,487,266	$8,487,266	$7,758,613	$7,758,613
Time deposits	4,150,358	4,198,043	4,629,968	4,677,494
Short-term borrowings	448,955	448,955	674,077	674,077
Accrued interest payable	27,678	27,678	33,333	33,333
Other financial liabilities (1)	86,649	86,649	80,551	80,551
Federal Home Loan Bank advances and long-term debt	1,025,505	965,389	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 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 September 30, 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, 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 for the same remaining maturities.

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

NOTE L – New Accounting Standards

In May 2011, the FASB issued ASC Update 2011-04, "Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs" (ASC Update 2011-04). ASC Update 2011-04 amends fair value measurement and disclosure requirements in U.S. GAAP for the purpose of improving the comparability of fair value measurements presented and

disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards (IFRS). Among the amendments in ASC Update 2011-04 are expanded disclosure requirements that require companies to quantitatively disclose inputs used in Level 3 fair value measurements and to qualitatively disclose the sensitivity of fair value measurement to changes in unobservable inputs. This standards update is effective for the first interim or annual period beginning on or after December 15, 2011. For the Corporation, this standards update is effective in connection with its March 31, 2012 interim filing on Form 10-Q. The adoption of ASC Update 2011-04 is not expected to materially impact the Corporation’s financial statements.

In June 2011, the FASB issued ASC Update 2011-05, “Presentation of Other Comprehensive Income” (ASC Update 2011-05). ASC Update 2011-05 requires companies to present total comprehensive income, consisting of net income and other comprehensive income, in either one continuous statement of comprehensive income or in two separate but consecutive statements. Presently, the Corporation reports total comprehensive income within its Consolidated Statement of Shareholders’ Equity and Comprehensive Income. For publicly traded entities, this standards update is effective for fiscal years beginning after December 15, 2011. For the Corporation, this standards update is effective in connection with its March 31, 2012 interim filing on Form 10-Q.

In September 2011, the FASB issued ASC Update 2011-08, "Testing for Goodwill Impairment" (ASC Update 2011-08). ASC Update 2011-08 simplifies testing for goodwill impairment by permitting entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is greater than its carrying value. If an entity can qualitatively demonstrate that a reporting unit's fair value is more likely than not greater than its carrying value, then it would not be required to perform the quantitative two-step goodwill impairment test. This standards update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity’s financial statements for the most recent annual or interim period have not yet been issued. The adoption of ASC Update 2011-08 is not expected to materially impact the Corporation’s financial statements.

NOTE M – Reclassifications

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

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

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

FORWARD-LOOKING STATEMENTS

The Corporation has made, and may continue to make, certain forward-looking statements with respect to its financial condition and results of operations. Many factors could affect future financial results including, without limitation: the impact of adverse changes in the economy and real estate markets; increases in non-performing assets which may reduce the level of earning assets and require the Corporation to increase the allowance for credit losses, charge-off loans and incur elevated collection and carrying costs related to such non-performing assets; acquisition and growth strategies; market risk; changes or adverse developments in political or regulatory conditions; a disruption in, or abnormal functioning of, credit and other markets, including the lack of or reduced access to markets for mortgages and other asset-backed securities and for commercial paper and other short-term borrowings; changes in the levels of, or methodology for determining, FDIC deposit insurance premiums and assessments; the effect of competition and interest rates on net interest margin and net interest income; investment strategy and other income growth; investment securities gains and losses; declines in the value of securities which may result in charges to earnings; changes in rates of deposit and loan growth or a decline in loans originated; relative balances of 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," "plans," "expects," "future," "intend 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.

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

	As of or for the Three months ended September 30		As of or for the Nine months ended September 30	
	2011	2010	2011	2010
Net income available to common shareholders (in thousands)	$39,324	$31,508	$109,494	$80,539
Income before income taxes (in thousands)	$52,765	$50,473	$148,464	$130,185
Diluted net income per share (1)	$0.20	$0.16	$0.55	$0.43
Return on average assets	0.97 %	0.91 %	0.91 %	0.79 %
Return on average common equity (2)	7.89 %	7.75 %	7.55 %	5.37 %
Return on average tangible common equity (3)	11.06 %	11.09 %	10.72 %	7.64 %
Net interest margin (4)	3.93 %	3.81 %	3.93 %	3.79 %
Non-performing assets to total assets	2.14 %	2.28 %	2.14 %	2.28 %
Net charge-offs to average loans (annualized)	1.04 %	1.19 %	1.25 %	1.03 %

(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 third quarter of 2011 increased $2.3 million, or 4.5%, from the same period in 2010. Income before income taxes for the first nine months of 2011 increased $18.3 million, or 14.0%, in comparison to the first nine months of 2010.

Economic conditions, while slowly improving, continue to place stress on the Corporation's borrowers and impact the pace of asset quality improvement. However, improvements in certain asset quality metrics had a positive impact on results for the three and nine months ended September 30, 2011.

Non-performing loans and overall delinquencies decreased as of September 30, 2011 in comparison to September 30, 2010. Net charge-offs decreased for the third quarter of 2011 in comparison to the same period in 2010. These improved credit quality metrics resulted in lower loan loss allocations, which led to lower provisions for credit losses. The Corporation's results were most significantly impacted by a decrease in the provision for credit losses of $9.0 million, or 22.5%, and $15.0 million, or 12.5%, for the three and nine months ended September 30, 2011, respectively.

Excluding the decrease in the provision for loan losses, the following items had an impact on earnings for the three and nine months ended September 30, 2011 as compared to the same periods in 2010:

- Increase in net interest income of $1.3 million, or 0.9%, and $3.8 million, or 0.9%, for the three and nine months ended September 30, 2011, respectively. The increases in net interest income for the three and nine months ended September 30, 2011 were a result of increases in the net interest margin.
- Other income, excluding investment securities gains (losses), decreased $1.9 million, or 3.7%, for three months ended September 30, 2011 in comparison to the same period in 2010 and increased $5.2 million, or 3.8%, for the nine months ended September 30, 2011 in comparison to 2010. During the three and nine months ended September 30, 2011, the Corporation experienced growth in a number of other fee income categories, including debit card fees, foreign currency processing revenues and merchant fees. Mortgage banking income decreased $4.5 million and $2.0 million in comparison to the three and nine months ended September 30, 2011, respectively.
- Other expenses increased $3.9 million, or 3.8%, and $6.8 million, or 2.2%, for the three and nine months ended September 30, 2011, respectively. The increases in other expenses were due to higher salaries and employee benefits of $4.4 million, and $7.8 million, for the three and nine months ended September 30, 2011, respectively. Partially offsetting these increases were decreases in FDIC insurance expense of $977,000 and $3.0 million for the three and nine months ended September 30, 2011, respectively.

Quarter Ended September 30, 2011 compared to the Quarter Ended September 30, 2010
Net Interest Income
FTE net interest income increased $1.4 million, or 1.0%, from $144.1 million in the third quarter of 2010 to $145.5 million in the third quarter of 2011. This increase was the result of an increase in net interest margin, offset by a decline in average interest-earning assets.
Net interest margin increased 12 basis points, or 3.1%, from 3.81% for the third quarter of 2010 to 3.93% for the third quarter of 2011. The increase in net interest margin was a result of a 36 basis point, or 24.3%, decrease in funding costs, partially offset by a 21 basis point, or 4.2%, decrease in yields on interest-earning assets.

The following table provides a comparative average balance sheet and net interest income analysis for the third 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 September 30					
	2011			2010		
ASSETS	Average Balance	Interest (1)	Yield/ Rate	Average Balance	Interest (1)	Yield/ Rate
Interest-earning assets:						
Loans, net of unearned income (2)	$11,887,544	$151,816	5.07 %	$11,958,145	$160,125	5.32 %
Taxable investment securities (3)	2,142,670	20,166	3.76	2,303,692	22,363	3.88
Tax-exempt investment securities (3)	325,420	4,456	5.48	345,281	4,961	5.75
Equity securities (3)	124,893	777	2.48	138,993	760	2.18
Total investment securities	2,592,983	25,399	3.92	2,787,966	28,084	4.03
Loans held for sale	37,626	425	4.52	78,862	919	4.66
Other interest-earning assets	218,135	91	0.17	204,601	102	0.20
Total interest-earning assets	14,736,288	177,731	4.80 %	15,029,574	189,230	5.01 %
Noninterest-earning assets:						
Cash and due from banks	276,063			280,784		
Premises and equipment	206,059			203,995		
Other assets	1,107,107			1,133,469		
Less: Allowance for loan losses	(274,436)			(285,801)		
Total Assets	$16,051,081			$16,362,021		
LIABILITIES AND EQUITY						
Interest-bearing liabilities:						
Demand deposits	$2,424,646	$1,262	0.21 %	$2,129,407	$1,868	0.35 %
Savings deposits	3,329,489	2,564	0.30	3,214,558	4,972	0.61
Time deposits	4,224,001	15,858	1.49	4,987,212	22,915	1.82
Total interest-bearing deposits	9,978,136	19,684	0.78	10,331,177	29,755	1.14
Short-term borrowings	443,337	151	0.14	489,013	267	0.21
FHLB advances and long-term debt	1,025,546	12,408	4.82	1,274,411	15,148	4.73
Total interest-bearing liabilities	11,447,019	32,243	1.12 %	12,094,601	45,170	1.48 %
Noninterest-bearing liabilities:						
Demand deposits	2,466,877			2,140,866		
Other	159,430			198,922		
Total Liabilities	14,073,326			14,434,389		
Shareholders’ equity	1,977,755			1,927,632		
Total Liabilities and Shareholders’ Equity	$16,051,081			$16,362,021		
Net interest income/net interest margin (FTE)		145,488	3.93 %		144,060	3.81 %
Tax equivalent adjustment		(3,995)			(3,874)	
Net interest income		$141,493			$140,186	

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

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

	2011 vs. 2010 Increase (decrease) due to change in		
	Volume	Rate	Net
	(in thousands)		
Interest income on:			
Loans, net of unearned income	$(909)	$(7,400)	$(8,309)
Taxable investment securities	(1,534)	(663)	(2,197)
Tax-exempt investment securities	(279)	(226)	(505)
Equity securities	(81)	98	17
Loans held for sale	(467)	(27)	(494)
Other interest-earning assets	6	(17)	(11)
Total interest income	$(3,264)	$(8,235)	$(11,499)
Interest expense on:			
Demand deposits	$228	$(834)	$(606)
Savings deposits	174	(2,582)	(2,408)
Time deposits	(3,215)	(3,842)	(7,057)
Short-term borrowings	(25)	(91)	(116)
FHLB advances and long-term debt	(3,030)	290	(2,740)
Total interest expense	$(5,868)	$(7,059)	$(12,927)

FTE interest income decreased $11.5 million, or 6.1%. A 21 basis point, or 4.2%, decrease in average yields resulted in an $8.2 million decrease in interest income. The remaining $3.3 million decrease was due to a $293.3 million, or 2.0%, decrease in average interest-earning assets.

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

	Three months ended September 30		Increase (decrease)	
	2011	2010	$	%
	(dollars in thousands)			
Real estate – commercial mortgage	$4,461,646	$4,341,685	$119,961	2.8%
Commercial – industrial, financial and agricultural	3,691,516	3,671,128	20,388	0.6
Real estate – home equity	1,628,822	1,643,615	(14,793)	(0.9)
Real estate – residential mortgage	1,037,968	998,165	39,803	4.0
Real estate – construction	668,464	868,497	(200,033)	(23.0)
Consumer	329,619	366,719	(37,100)	(10.1)
Leasing and other	69,509	68,336	1,173	1.7
Total	$11,887,544	$11,958,145	$(70,601)	(0.6)%

Geographically, the $120.0 million, or 2.8%, increase in commercial mortgages was largely due to increases in the Corporation’s Pennsylvania ($120.1 million, or 5.3%) and New Jersey ($13.4 million, or 1.1%) markets, partially offset by a decrease in the Virginia ($19.2 million, or 5.5%) market.

The $39.8 million, or 4.0%, 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 to partially mitigate the impact of decreases in average interest-earning assets.

The $200.0 million, or 23.0%, decrease in construction loans was primarily due to efforts to reduce credit exposure in this portfolio as reductions exceeded new loan originations in recent quarters. Geographically, the decline in construction loans was in the Corporation’s Maryland ($78.4 million, or 41.3%), Virginia ($70.6 million, or 34.3%), New Jersey ($35.5 million, or 24.0%) and Pennsylvania ($22.2 million, or 7.1%) markets.

The $37.1 million, or 10.1%, decrease in consumer loans occurred throughout all of the Corporation’s markets, with $21.4 million

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of the decrease related to direct consumer loans and $15.7 million of the decrease attributable to the indirect automobile loan portfolio.
The average yield on loans decreased 25 basis points, or 4.7%, from 5.32% in 2010 to 5.07% in 2011, despite the average prime rate remaining at 3.25% for the third quarters of both 2011 and 2010. The decrease in average yields on loans was attributable to repayments of higher-yielding loans and declining average rates on fixed and adjustable rate loans which, unlike floating rate loans, have a lagged repricing effect. In addition, approximately 14% of the floating rate portfolio is based on an index other than prime, such as the one-month London Inter-bank Offered Rate, or LIBOR, which decreased on average for the third quarter of 2011 in comparison to the third quarter of 2010.
Average investments decreased $195.0 million, or 7.0%, due largely to sales and maturities of mortgage-backed securities. Since the third quarter of 2010, 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 11 basis points, or 2.7%, from 4.03% in 2010 to 3.92% in 2011, as the reinvestment of cash flows and purchases of taxable investment securities were at yields lower than the overall portfolio yield.
Interest expense decreased $12.9 million, or 28.6%, to $32.2 million in the third quarter of 2011 from $45.2 million in the third quarter of 2010. Interest expense decreased $7.1 million due to a 36 basis point, or 24.3%, decrease in the average cost of interest-bearing liabilities. Interest expense decreased an additional $5.9 million as a result of a $647.6 million, or 5.4%, decline in average interest-bearing liabilities.
Average deposits, by type, are summarized in the following table:

	Three months ended September 30		Increase (decrease)	
	2011	2010	$	%
	(dollars in thousands)			
Noninterest-bearing demand	$2,466,877	$2,140,866	$326,011	15.2 %
Interest-bearing demand	2,424,646	2,129,407	295,239	13.9
Savings	3,329,489	3,214,558	114,931	3.6
Total demand and savings	8,221,012	7,484,831	736,181	9.8
Time deposits	4,224,001	4,987,212	(763,211)	(15.3)
Total deposits	$12,445,013	$12,472,043	$(27,030)	(0.2)%

Total demand and savings accounts increased $736.2 million, or 9.8%. The increase in noninterest-bearing account balances was primarily due to a $251.8 million, or 16.8%, increase in business account balances due, in part, to businesses maintaining higher balances to offset service fees, as well as a migration away from the Corporation's cash management products due to low interest rates, and a $49.7 million, or 9.3%, increase in personal account balances. The increase in interest-bearing demand and savings account balances was due to a $275.6 million, or 21.3%, increase in municipal account balances and a $122.4 million, or 3.9%, increase in personal account balances. The increase in municipal account balances was largely due to attractive interest rates for insured deposit products relative to non-bank alternatives. The increase in personal account balances was largely due to customers' migration away from certificates of deposit.

The decrease in time deposits was almost entirely due to customer certificates of deposit, which decreased $757.4 million, or 15.2%, with the remaining $5.8 million decrease in brokered certificates of deposit. The decrease in customer certificates of deposit was in accounts with original maturity terms of less than two years ($641.1 million, or 21.1%) and jumbo certificates of deposit ($160.6 million, or 42.5%). As noted above, the decrease in customer certificates of deposit was due to customers migrating funds to interest-bearing savings and demand accounts in the current low interest rate environment, as well as the Corporation not competing aggressively for time deposit balances.
The average cost of interest-bearing deposits decreased 36 basis points, or 31.6%, from 1.14% in 2010 to 0.78% in 2011 due to a reduction in rates paid on all categories of deposits, and the repricing of time deposits to lower rates. From October 1, 2010 to September 30, 2011, approximately $3.9 billion of time deposits matured at a weighted average rate of 1.32%, while approximately $3.5 billion of time deposits were issued at a weighted average rate of 0.75%.

The following table summarizes changes in average short-term and long-term borrowings, by type:

	Three months ended September 30		Increase (decrease)	
	2011	2010	$	%
	(dollars in thousands)			
Short-term borrowings:				
Customer repurchase agreements	$206,824	$257,510	$(50,686)	(19.7)%
Customer short-term promissory notes	170,790	203,158	(32,368)	(15.9)%
Total short-term customer funding	377,614	460,668	(83,054)	(18.0)%
Federal funds purchased and other	65,723	28,345	37,378	131.9%
Total short-term borrowings	443,337	489,013	(45,676)	(9.3)%
Long-term debt:				
FHLB advances	641,726	891,081	(249,355)	(28.0)%
Other long-term debt	383,820	383,330	490	0.1%
Total long-term debt	1,025,546	1,274,411	(248,865)	(19.5)%
Total	$1,468,883	$1,763,424	$(294,541)	(16.7)%

The $83.1 million, or 18.0%, decrease in short-term customer funding was primarily due to customers transferring funds from the cash management program to deposit products due to the low interest rate environment. The $249.4 million decrease in Federal Home Loan Bank (FHLB) advances was due to maturities, which were not replaced with new advances.

Provision for Credit Losses and Allowance for Credit Losses

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

	Three months ended September 30			
	2011		2010	
	(dollars in thousands)			
Loans, net of unearned income outstanding at end of period	$11,895,655		$11,950,618	
Daily average balance of loans, net of unearned income	$11,887,544		$11,958,145	
Balance of allowance for credit losses at beginning of period	$268,633		$280,377	
Loans charged off:				
Commercial – industrial, financial and agricultural	14,840		6,601	
Real estate – construction	8,535		23,139	
Real estate – commercial mortgage	5,730		4,262	
Consumer and home equity	1,792		3,254	
Real estate – residential mortgage	1,514		751	
Leasing and other	486		790	
Total loans charged off	32,897		38,797	
Recoveries of loans previously charged off:				
Commercial – industrial, financial and agricultural	695		2,088	
Real estate – construction	595		189	
Real estate – commercial mortgage	249		571	
Consumer and home equity	314		246	
Real estate – residential mortgage	36		3	
Leasing and other	192		197	
Total recoveries	2,081		3,294	
Net loans charged off	30,816		35,503	
Provision for credit losses	31,000		40,000	
Balance of allowance for credit losses at end of period	$268,817		$284,874	
Components of the Allowance for Credit Losses:				
Allowance for loan losses	$266,978		$281,724	
Reserve for unfunded lending commitments	1,839		3,150	
Allowance for credit losses	$268,817		$284,874	
Selected Ratios:				
Net charge-offs to average loans (annualized)	1.04	%	1.19	%
Allowance for credit losses to loans outstanding	2.26	%	2.38	%

The provision for credit losses was $31.0 million for the third quarter of 2011, a decrease of $9.0 million, or 22.5%, from the third quarter of 2010. The decrease in the provision for credit losses was due to the continuing improvement in the Corporation’s credit quality metrics, including a reduction in the level of non-performing assets and overall delinquency.

Net charge-offs decreased $4.7 million, or 13.2%, to $30.8 million for the third quarter of 2011 compared to $35.5 million for the third quarter of 2010. The decrease in net charge-offs was due to decreases in construction loan net charge-offs ($15.0 million, or 65.4%) and consumer and home equity loan net charge-offs ($1.5 million, or 50.9%), partially offset by increases in commercial loan net charge-offs ($9.6 million, or 213.4%) and commercial mortgage net charge-offs ($1.8 million, or 48.5%).

Of the $30.8 million of net charge-offs recorded in the third quarter of 2011, 37.5% were for loans originated by the Corporation’s banks in Pennsylvania, 21.6% in Virginia, 29.9% in New Jersey and 10.2% in Maryland. Charge-offs for the third quarter of 2011 included five individual charge-offs of $1.0 million or greater, totaling $6.6 million, of which $3.6 million were construction loans and $3.0 million were commercial loans.

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

	September 30, 2011	September 30, 2010	December 31, 2010
	(dollars in thousands)		
Non-accrual loans	$269,176	$284,408	$280,688
Loans 90 days past due and accruing	41,427	58,164	48,084
Total non-performing loans	310,603	342,572	328,772
Other real estate owned (OREO)	37,399	30,195	32,959
Total non-performing assets	$348,002	$372,767	$361,731
Non-accrual loans to total loans	2.26 %	2.38 %	2.35 %
Non-performing assets to total assets	2.14 %	2.28 %	2.22 %
Allowance for credit losses to non-performing loans	86.55 %	83.16 %	83.80 %
Non-performing assets to tangible common shareholders' equity and allowance for credit losses	20.37 %	23.12 %	22.50 %

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

	September 30, 2011	September 30, 2010	December 31, 2010
	(in thousands)		
Real estate – commercial mortgage	$102,928	$100,286	$93,720
Commercial – industrial, financial and agricultural	92,385	85,103	87,455
Real estate – construction	52,381	91,591	84,616
Real estate – residential mortgage	48,086	52,038	50,412
Real estate – home equity	12,097	11,272	10,188
Consumer	2,614	1,882	2,154
Leasing	112	400	227
Total non-performing loans	$310,603	$342,572	$328,772