FULTON FINANCIAL CORP
Form 10-Q
November 09, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20459
FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009,

or

o **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 þ No o

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 o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

(Do not check if a 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 o No þ

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 176,264,000 shares outstanding as of October 31, 2009.

FULTON FINANCIAL CORPORATION
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2009
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Item 1. Financial Statements
FULTON FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except per-share data)

	September 30 2009 (unaudited)	December 31 2008
ASSETS		
Cash and due from banks	**$ 252,004**	$ 331,164
Interest-bearing deposits with other banks	**24,048**	16,791
Federal funds sold		4,919
Loans held for sale	**84,766**	95,840
Investment securities:		
Held to maturity (estimated fair value of $9,248 in 2009 and $9,765 in 2008)	**9,145**	9,636
Available for sale	**3,265,254**	2,715,205
Loans, net of unearned income	**11,968,246**	12,042,620
Less: Allowance for loan losses	**(234,511)**	(173,946)
Net Loans	**11,733,735**	11,868,674
Premises and equipment	**204,520**	202,657
Accrued interest receivable	**60,433**	58,566
Goodwill	**534,919**	534,385
Intangible assets	**19,122**	23,448
Other assets	**338,763**	323,821
Total Assets	**$ 16,526,709**	$ 16,185,106
LIABILITIES		
Deposits:		
Noninterest-bearing	**$ 1,932,382**	$ 1,653,440
Interest-bearing	**10,100,298**	8,898,476
Total Deposits	**12,032,680**	10,551,916
Short-term borrowings:		
Federal funds purchased	**210,865**	1,147,673
Other short-term borrowings	**511,753**	615,097
Total Short-Term Borrowings	**722,618**	1,762,770
Accrued interest payable	**49,962**	53,678

Other liabilities	**146,816**	169,298
Federal Home Loan Bank advances and long-term debt	**1,650,870**	1,787,797
Total Liabilities	**14,602,946**	14,325,459
SHAREHOLDERS EQUITY		
Preferred stock, $1,000 par value, 376,500 shares authorized and outstanding	**369,950**	368,944
Common stock, $2.50 par value, 600 million shares authorized, 192.9 million shares issued in 2009 and 192.4 million shares issued in 2008	**482,195**	480,978
Additional paid-in capital	**1,257,608**	1,260,947
Retained earnings	**57,962**	31,075
Accumulated other comprehensive income (loss)	**11,006**	(17,907)
Treasury stock, 16.7 million shares in 2009 and 17.3 million shares in 2008, at cost	**(254,958)**	(264,390)
Total Shareholders Equity	**1,923,763**	1,859,647
Total Liabilities and Shareholders Equity	**$ 16,526,709**	$ 16,185,106

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	
	2009	2008	**2009**	2008
INTEREST INCOME				
Loans, including fees	**$ 162,375**	$ 180,170	**$ 486,965**	$ 550,477
Investment securities:				
Taxable	**29,376**	26,025	**85,648**	84,114
Tax-exempt	**3,966**	4,513	**12,618**	13,540
Dividends	**543**	1,421	**1,715**	5,103
Loans held for sale	**1,550**	1,539	**4,439**	4,727
Other interest income	**51**	141	**140**	460
Total Interest Income	**197,861**	213,809	**591,525**	658,421
INTEREST EXPENSE				
Deposits	**43,825**	47,192	**141,727**	161,807
Short-term borrowings	**835**	12,877	**3,193**	44,093
Long-term debt	**20,400**	19,722	**61,744**	60,714
Total Interest Expense	**65,060**	79,791	**206,664**	266,614
Net Interest Income	**132,801**	134,018	**384,861**	391,807
Provision for loan losses	**45,000**	26,700	**145,000**	54,626
Net Interest Income After Provision for Loan Losses	**87,801**	107,318	**239,861**	337,181
OTHER INCOME				
Service charges on deposit accounts	**15,321**	16,177	**45,276**	45,463
Other service charges and fees	**10,003**	9,598	**27,952**	27,320
Investment management and trust services	**8,191**	8,045	**23,970**	25,193
Gains on sales of mortgage loans	**2,778**	2,266	**18,764**	7,247
Gain on sale of credit card portfolio				13,910
Other	**4,932**	4,230	**14,558**	11,414
Total other-than-temporary impairment losses	**(1,211)**	(10,681)	**(15,235)**	(39,271)
Less: Portion of (gain) loss recognized in other comprehensive income (before taxes)	**(1,584)**		**6,021**	
Net other-than-temporary impairment losses	**(2,795)**	(10,681)	**(9,214)**	(39,271)
Net gains on sale of investment securities	**2,750**	1,180	**12,165**	9,369
Net investment securities gains (losses)	**(45)**	(9,501)	**2,951**	(29,902)

Total Other Income	**41,180**	30,815	**133,471**	100,645
OTHER EXPENSES				
Salaries and employee benefits	**54,086**	55,310	**165,189**	164,786
Net occupancy expense	**10,165**	10,237	**31,428**	30,999
FDIC insurance expense	**5,244**	1,147	**21,738**	2,684
Equipment expense	**3,281**	3,061	**9,660**	9,907
Data processing	**3,121**	3,242	**9,100**	9,604
Marketing	**1,982**	3,097	**6,277**	9,521
Intangible amortization	**1,429**	1,730	**4,326**	5,386
Operating risk loss	**338**	3,480	**6,683**	19,108
Other	**20,164**	18,051	**59,587**	53,756
Total Other Expenses	**99,810**	99,355	**313,988**	305,751
Income Before Income Taxes	**29,171**	38,778	**59,344**	132,075
Income taxes	**5,825**	9,702	**9,802**	35,825
Net Income	**23,346**	29,076	**49,542**	96,250
Preferred stock dividends and discount accretion	**(5,046)**		**(15,123)**	
Net Income Available to Common Shareholders	**$ 18,300**	$ 29,076	**$ 34,419**	$ 96,250
PER COMMON SHARE:				
Net income (basic)	**$ 0.10**	$ 0.17	**$ 0.20**	$ 0.55
Net income (diluted)	**0.10**	0.17	**0.20**	0.55
Cash dividends	**0.03**	0.15	**0.09**	0.45

See Notes to Consolidated Financial Statements

FULTON FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME
(UNAUDITED)
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

	Preferred Stock	Common Stock Shares Outstanding	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
				(in thousands)				
Balance at December 31, 2008	$ 368,944	175,044	$ 480,978	$ 1,260,947	$ 31,075	$ (17,907)	$ (264,390)	$ 1,859,647
Cumulative effect of FSP FAS 115-2 and FAS 124-2 adoption (net of $3.4 million tax effect)					6,298	(6,298)		
Comprehensive income:								
Net income					49,542			49,542
Other comprehensive income						35,211		35,211
Total comprehensive income								84,753
Stock issued, including related tax benefits		1,105	1,217	(4,708)			9,432	5,941
Stock-based compensation awards				1,369				1,369
Preferred stock discount accretion	1,006				(1,006)			
Preferred stock cash dividends					(12,130)			(12,130)
Common stock cash dividends $0.09 per share					(15,817)			(15,817)
	$ 369,950	176,149	$ 482,195	$ 1,257,608	$ 57,962	$ 11,006	$ (254,958)	$ 1,923,763

Balance at September 30, 2009							
Balance at December 31, 2007	$ 173,503	$ 479,559	$ 1,254,369	$ 141,993	$ (21,773)	$ (279,228)	$ 1,574,920
Cumulative effect of initial recognition of endorsement split-dollar life insurance liability				(677)			(677)
Impact of pension plan measurement date change (net of $23,000 tax effect)				43			43
Comprehensive income:							
Net income				96,250			96,250
Other comprehensive income					511		511
Total comprehensive income							96,761
Stock issued, including related tax benefits	1,184	1,251	(2,189)			10,419	9,481
Stock-based compensation awards			1,671				1,671
Common stock cash dividends $0.45 per share				(78,289)			(78,289)
Balance at September 30, 2008	$ 174,687	$ 480,810	$ 1,253,851	$ 159,320	$ (21,262)	$ (268,809)	$ 1,603,910

See Notes to Consolidated Financial Statements

FULTON FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	Nine Months Ended September 30	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	**$ 49,542**	$ 96,250
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**145,000**	54,626
Depreciation and amortization of premises and equipment	**15,395**	14,776
Net amortization of investment securities premiums	**1,265**	372
Gain on sale of credit card portfolio		(13,910)
Investment securities (gains) losses	**(2,951)**	29,902
Net decrease in loans held for sale	**11,074**	17,396
Amortization of intangible assets	**4,326**	5,386
Stock-based compensation expense	**1,369**	1,671
Excess tax benefits from stock-based compensation expense		(20)
(Increase) decrease in accrued interest receivable	**(1,867)**	11,417
Increase in other assets	**(18,462)**	(12,274)
Decrease in accrued interest payable	**(3,716)**	(21,288)
Increase (decrease) in other liabilities	**5,417**	(17,279)
Total adjustments	**156,850**	70,775
Net cash provided by operating activities	**206,392**	167,025
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available for sale	**548,119**	662,993
Proceeds from maturities of securities held to maturity	**3,836**	5,273
Proceeds from maturities of securities available for sale	**588,003**	546,407
Proceeds from sale of credit card portfolio		100,516
Purchase of securities held to maturity	**(3,501)**	(4,813)
Purchase of securities available for sale	**(1,654,074)**	(903,817)
Increase in short-term investments	**(2,338)**	(29,036)
Net increase in loans	**(9,042)**	(715,219)
Net purchases of premises and equipment	**(17,258)**	(20,944)
Net cash used in investing activities	**(546,255)**	(358,640)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in demand and savings deposits	**1,133,516**	(21,071)
Net increase (decrease) in time deposits	**347,248**	(167,819)
Additions to long-term debt		344,690
Repayments of long-term debt	**(136,927)**	(166,934)

(Decrease) increase in short-term borrowings	**(1,040,152)**	206,022
Dividends paid	**(48,923)**	(78,196)
Net proceeds from issuance of stock	**5,941**	9,461
Excess tax benefits from stock-based compensation expense		20
Net cash provided by financing activities	**260,703**	126,173
Net Decrease in Cash and Due From Banks	**(79,160)**	(65,442)
Cash and Due From Banks at Beginning of Year	**331,164**	381,283
Cash and Due From Banks at End of Period	**$ 252,004**	$ 315,841
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for:		
Interest	**$ 210,380**	$ 287,902
Income taxes	**9,076**	67,264

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, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (Statement 168). Statement 168 established the Accounting Standards Codification (FASB ASC) as the source of authoritative U.S. GAAP for all nongovernmental entities, excluding Securities and Exchange Commission (SEC) rules and interpretative releases, which are also authoritative U.S. GAAP for SEC registrants. References to specific U.S. GAAP provisions included in the accompanying report cite FASB ASC references where applicable.

NOTE B Net Income Per Common Share and 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 dilutive securities, calculated using the treasury stock method. The Corporation s dilutive securities consist of outstanding stock options, restricted stock and common stock warrants.

A reconciliation of net income available to common shareholders and 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	
	2009	2008	**2009**	2008
	(in thousands)			
Net income	**$ 23,346**	$ 29,076	**$ 49,542**	$ 96,250
Preferred stock dividends and discount accretion	**(5,046)**		**(15,123)**	
Net income available to common shareholders	**$ 18,300**	$ 29,076	**$ 34,419**	$ 96,250
Weighted average shares outstanding (basic)	**175,783**	174,463	**175,552**	174,017
Effect of dilutive securities	**295**	449	**233**	534
Weighted average shares outstanding (diluted)	**176,078**	174,912	**175,785**	174,551
Stock options and common stock warrants excluded from the diluted net income per share computation as their effect would have been anti-dilutive	**11,719**	5,560	**11,831**	5,261

The following table presents the components of other comprehensive income:

	Nine months ended September 30	
	2009	2008
	(in thousands)	
Unrealized gain (loss) on securities (net of $20.7 million and $11.9 million tax effect in 2009 and 2008, respectively)	**$ 38,437**	$ (22,118)
Non-credit related unrealized loss on other-than-temporarily impaired debt securities (net of $2.1 million tax effect) (1)	**(3,914)**	
Unrealized gain on derivative financial instruments (net of $55,000 tax effect in 2009 and 2008) (2)	**102**	102
Unrecognized postretirement gains arising in 2009 due to plan amendment (net of $1.2 million tax effect) (3)	**2,125**	
Amortization of unrecognized pension and postretirement costs (net of $204,000 tax effect)	**379**	
Reclassification adjustment for securities (gains) losses included in net income (net of $1.0 million tax expense in 2009 and $12.1 million tax benefit in 2008)	**(1,918)**	22,527
Other comprehensive income	**$ 35,211**	$ 511

(1) See Note C, Investment Securities for additional details related to the

other-than-temporary impairment of debt securities.

(2) 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.

(3) See Note F, Employee Benefit Plans for additional details related to the amendment of the Corporation s postretirement plan during 2009.

NOTE C INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Held to Maturity at September 30, 2009				
U.S. Government sponsored agency securities	**$ 6,763**	**$ 14**	**$**	**$ 6,777**
State and municipal securities	**765**	**1**		**766**
Mortgage-backed securities	**1,617**	**88**		**1,705**
	$ 9,145	**$ 103**	**$**	**$ 9,248**
Available for Sale at September 30, 2009				
Equity securities	**$ 130,804**	**$ 2,563**	**$ (3,986)**	**$ 129,381**
U.S. Government securities	**13,999**	**1**		**14,000**
U.S. Government sponsored agency securities	**126,146**	**1,260**	**(34)**	**127,372**
State and municipal securities	**421,639**	**16,373**	**(15)**	**437,997**
Corporate debt securities	**158,040**	**370**	**(43,044)**	**115,366**
Collateralized mortgage obligations	**975,384**	**25,238**	**(215)**	**1,000,407**
Mortgage-backed securities	**1,110,423**	**44,722**	**(4)**	**1,155,141**
Auction rate securities (1)	**292,256**	**2,474**	**(9,140)**	**285,590**
	$ 3,228,691	**$ 93,001**	**$ (56,438)**	**$ 3,265,254**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Held to Maturity at December 31, 2008				
U.S. Government sponsored agency securities	$ 6,782	$ 60	$	$ 6,842
State and municipal securities	825	5		830
Corporate debt securities	25			25
Mortgage-backed securities	2,004	66	(2)	2,068
	$ 9,636	$ 131	$ (2)	$ 9,765
Available for Sale at December 31, 2008				
Equity securities	$ 138,071	$ 2,133	$ (1,503)	$ 138,701
U.S. Government securities	14,545	83		14,628
U.S. Government sponsored agency securities	74,616	2,406	(20)	77,002
State and municipal securities	520,429	5,317	(2,210)	523,536
Corporate debt securities	154,976	1,085	(36,167)	119,894

Collateralized mortgage obligations	489,686	14,713	(206)	504,193
Mortgage-backed securities	1,118,508	24,160	(1,317)	1,141,351
Auction rate securities	208,281		(12,381)	195,900
	$ 2,719,112	$ 49,897	$ (53,804)	$ 2,715,205

(1) See Note H, Commitments and Contingencies for additional details related to auction rate securities.

The amortized cost and estimated fair value of debt securities as of September 30, 2009, 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	$ 7,085	$ 7,100	$ 86,874	$ 87,290
Due from one year to five years	443	443	253,567	259,695
Due from five years to ten years			105,271	105,528
Due after ten years			566,368	527,812
	7,528	7,543	1,012,080	980,325
Collateralized mortgage obligations			975,384	1,000,407
Mortgage-backed securities	1,617	1,705	1,110,423	1,155,141
	$ 9,145	$ 9,248	$ 3,097,887	$ 3,135,873

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 losses on equity and debt securities are net of other-than-temporary impairment charges:

	Gross Realized Gains	Gross Realized Losses	Other-than-temporary Impairment Losses	Net Gains (Losses)
	(in thousands)			
Three months ended Sept. 30, 2009:				
Equity securities	**$ 49**	**$ (408)**	**$ (949)**	**$ (1,308)**
Debt securities	**3,130**	**(21)**	**(1,846)**	**1,263**
Total	**$ 3,179**	**$ (429)**	**$ (2,795)**	**$ (45)**
Three months ended Sept. 30, 2008:				
Equity securities	$ 1,276	$	$ (2,836)	$ (1,560)
Debt securities	418	(514)	(7,845)	(7,941)
Total	$ 1,694	$ (514)	$ (10,681)	$ (9,501)
Nine months ended Sept. 30, 2009:				
Equity securities	**$ 640**	**$ (689)**	**$ (2,739)**	**$ (2,788)**
Debt securities	**12,343**	**(129)**	**(6,475)**	**5,739**
Total	**$ 12,983**	**$ (818)**	**$ (9,214)**	**$ 2,951**

Nine months ended Sept. 30, 2008:				
Equity securities	$ 6,884	$	$ (31,426)	$ (24,542)
Debt securities	3,504	(1,019)	(7,845)	(5,360)
Total	$ 10,388	$ (1,019)	$ (39,271)	$ (29,902)

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2009	2008	**2009**	2008
	(in thousands)			
Financial institution stocks	**$ 949**	$ 2,020	**$ 2,633**	$ 30,250
Government sponsored agency stock		356		356
Mutual funds		460	**106**	820
Total equity securities charges	**949**	2,836	**2,739**	31,426
Bank-issued subordinated debt		4,855		4,855
Debt securities pooled trust preferred securities	**1,846**	2,990	**6,475**	2,990
Total debt securities charges	**1,846**	7,845	**6,475**	7,845
Total other-than-temporary impairment charges	**$ 2,795**	$ 10,681	**$ 9,214**	$ 39,271

The $949,000 and $2.6 million of other-than-temporary impairment charges related to financial institutions stocks during the three and nine months ended September 30, 2009 were due to the increasing severity and duration of the decline 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, 2009, after other-than-temporary impairment charges, the financial institutions stock portfolio had a cost basis of $35.9 million and a fair value of $34.4 million.

In April 2009, the FASB issued Staff Position No. 115-2 and 124-2, Recognition and Presentation of Other-than-Temporary Impairments (FSP FAS 115-2). FSP FAS 115-2, codified as FASB ASC paragraph 320-10-65-1, amends other-than-temporary impairment guidance for debt securities and expands disclosure requirements for other-than-temporarily impaired debt and equity securities. FSP FAS 115-2 requires companies to record other-than-temporary impairment charges, through earnings, if they have the intent to sell, or will more likely than not be required to sell, an impaired debt security before a recovery of its amortized cost basis. In addition, FSP FAS 115-2 requires companies to record other-than-temporary impairment charges through earnings for the amount of credit losses, regardless of the intent or the requirement to sell. Credit loss is measured as the difference between the present value of an impaired debt security s expected cash flows and its amortized cost basis. Non-credit related write-downs to fair value must be recorded as decreases to accumulated other comprehensive income as long as a company has no intent or expected requirement to sell an impaired security before a recovery of amortized cost basis. Finally, FSP FAS 115-2 requires companies to record all previously recorded non-credit related other-than-temporary impairment charges for debt securities as cumulative effect adjustments to retained earnings as of the beginning of the period of adoption. FSP FAS 115-2 was effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for the period ending after March 15, 2009. The Corporation elected to early adopt FSP FAS 115-2, effective January 1, 2009.

During the year ended December 31, 2008, the Corporation recorded other-than-temporary impairment charges for pooled trust preferred securities of $15.8 million. Upon adoption of FSP FAS 115-2, the Corporation determined that $9.7 million of those other-than-temporary impairment charges were non-credit related. As such, a $6.3 million (net of $3.4 million of taxes) increase to retained earnings and a corresponding decrease to accumulated other comprehensive income was recorded as the cumulative effect of adopting FSP FAS 115-2 as of January 1, 2009.

During the three and nine months ended September 30, 2009, the $1.8 million and $6.5 million of other-than-temporary impairment losses for pooled trust preferred securities recognized in earnings were determined through the use of an expected cash flow model. The most significant input to the expected cash flows model

was the assumed default rate for each pooled trust preferred security. The Corporation evaluates the financial metrics, such as capital ratios and non-performing asset ratios, of each individual financial institution issuer that comprises each pooled trust preferred security to estimate its expected default rate. The weighted average default rate for pooled trust preferred securities held by the Corporation at September 30, 2009 was approximately 14%.

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

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Balance of cumulative credit losses on pooled trust preferred securities, beginning of period (1)	$ (10,771)	$ (6,142)
Additions for credit losses recorded which were not previously recognized as components of earnings	(1,846)	(6,475)
Ending balance of cumulative credit losses on pooled trust preferred securities, end of period	$ (12,617)	$ (12,617)

(1) Cumulative credit losses of $6.1 million at January 1, 2009 represent the other-than-temporary impairment charges recorded during the year ended December 31, 2008 for pooled trust preferred securities, net of the Corporation s cumulative effect adjustment upon adoption of FSP FAS 115-2.

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, 2009:

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)			
$ 20,230	$ (27)	$ 478	$ (7)	$ 20,708	$ (34)

U.S. Government sponsored agency securities						
State and municipal securities	801	(15)			801	(15)
Corporate debt securities	23,215	(16,312)	77,738	(26,732)	100,953	(43,044)
Collateralized mortgage obligations	12,159	(3)	3,869	(212)	16,028	(215)
Mortgage-backed securities	1,843	(4)			1,843	(4)
Auction rate securities	81,426	(1,897)	135,809	(7,243)	217,235	(9,140)
Total debt securities	139,674	(18,258)	217,894	(34,194)	357,568	(52,452)
Equity securities	14,815	(3,825)	319	(161)	15,134	(3,986)
	$ 154,489	$ (22,083)	$ 218,213	$ (34,355)	$ 372,702	$ (56,438)

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, 2009 to be other-than-temporarily impaired.

With respect to the Corporation s investments in auction rate securities, the current unrealized holding losses on these securities are attributable to liquidity issues as a result of the failure of periodic auctions. As of September 30, 2009, approximately $247 million, or 86%, of the auction rate securities held by the Corporation were rated above investment grade, with approximately $184 million, or 64%, AAA rated by at least one ratings agency. Approximately $39 million, or 14%, of auction rate securities are rated below investment grade by at least one ratings agency. Of the $39 million of securities rated below investment

grade, approximately $22 million, or 57%, of the student loans underlying the auction rate securities have principal payments which are guaranteed by the Federal government. In total, approximately $254 million, or 89%, of the student loans underlying the auction rate securities have principal payments which are guaranteed by the Federal government. All auction rate securities currently held by the Corporation are current and making scheduled interest payments. Because the Corporation does not have the intention to sell and does not believe it will be required to sell any of these securities prior to a recovery of their fair value to amortized cost, the Corporation does not consider those investments to be other-than-temporarily impaired as of September 30, 2009. For additional information related to the Corporation s investment in auction rate securities, see Note H, Commitments and Contingencies .

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

	September 30, 2009		December 31, 2008	
	Amortized cost	**Estimated fair value**	Amortized cost	Estimated fair value
	(in thousands)			
Single-issuer trust preferred securities (1)	**$ 97,925**	**$ 75,195**	$ 97,887	$ 69,819
Subordinated debt	**34,861**	**32,589**	34,788	31,745
Pooled trust preferred securities	**22,518**	**4,846**	19,351	15,381
Corporate debt securities issued by financial institutions	**155,304**	**112,630**	152,026	116,945
Other corporate debt securities	**2,736**	**2,736**	2,950	2,949
Available for sale corporate debt securities	**$ 158,040**	**$ 115,366**	$ 154,976	$ 119,894

(1) Single-issuer trust preferred securities with estimated fair values totaling $8.1 million as of September 30, 2009 are classified as Level 3 assets under FASB ASC Topic 820. See Note J, Fair Value Measurements for additional details.

The Corporation has evaluated all corporate debt securities issued by financial institutions to determine if any unrealized holding losses represent credit losses, which would require an other-than-temporary impairment charge through earnings. In addition, the Corporation does not have the intention to sell and does not believe it will be required to sell any impaired corporate debt securities issued by financial institutions prior to a recovery to amortized cost. Therefore, the Corporation does not consider those investments with unrealized losses at September 30, 2009 to

be other-than-temporarily impaired.

NOTE D Goodwill

Goodwill is not amortized to expense, but is tested for impairment at least annually. Write-downs of the balance, if necessary as a result of an impairment test, are charged to expense in the period in which goodwill is determined to be impaired. The Corporation performs its annual test of goodwill impairment as of October 31st of each year. An interim goodwill impairment test is required if certain criteria are met. The Corporation evaluated whether any of the criteria for performing an interim impairment test were met during the third quarter of 2009 and concluded they were not met.

NOTE E Stock-Based Compensation

The fair value of equity awards granted to employees is recognized as compensation expense over the period during which employees are required to provide service in exchange for such awards. The Corporation s equity awards consist of stock options and restricted stock granted under its Stock Option and Compensation Plans (Option Plans) and shares purchased by employees under its 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	
	2009	2008	**2009**	2008
	(in thousands)			
Stock-based compensation expense	**$ 542**	$ 606	**$ 1,369**	$ 1,671
Tax benefit	**(111)**	(108)	**(186)**	(234)
Stock-based compensation expense, net of tax	**$ 431**	$ 498	**$ 1,183**	$ 1,437

Under the Option Plans, stock options and restricted stock are granted to key employees. Stock option exercise prices are equal to the fair value of the Corporation s stock on the date of grant, with terms of up to ten years. Stock options and restricted stock are typically granted annually on July 1st and become fully vested after a three-year vesting period. Certain events as defined in the Option Plans result in the acceleration of the vesting of both stock options and restricted stock. On July 1, 2009, the Corporation granted approximately 485,000 stock options and 214,000 shares of restricted stock under its Option Plans. As of September 30, 2009, there were 12.9 million shares reserved for future grants through 2013.

In connection with the Corporation s participation in the U.S. Treasury Department s Capital Purchase Program (CPP) component of the Troubled Asset Relief Program, the 2009 restricted stock shares granted to certain key employees are subject to the requirements and limitations contained in the Emergency Economic Stabilization Act of 2008, as amended, and related regulations. Among other things, the 2009 restricted stock grants to these key employees provide that they may not fully vest until the Corporation s participation in the CPP ends. None of the key employees who received 2009 restricted stock grants subject to the CPP vesting restrictions received 2009 stock option awards.

NOTE F Employee Benefit Plans

The Corporation maintains a defined benefit pension plan (Pension Plan) for certain employees. Contributions to the Pension Plan are actuarially determined and funded annually. 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 accrual of benefits for all existing participants was discontinued.

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.

During 2009, the Corporation amended the Postretirement Plan to no longer pay benefits for early retirees from their retirement date to the date they attain age 65. As a result of this amendment, the Corporation recorded a $3.3 million ($2.1 million, net of tax) reduction to unrecognized prior service costs through an increase to other comprehensive income. The total amount of unrecognized prior service cost that is expected to be accreted as a reduction to periodic benefit cost for the remainder of 2009 is $111,000.

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:

	Pension Plan			
	Three months ended September 30		Nine months ended September 30	
	2009	2008	**2009**	2008
	(in thousands)			
Service cost (1)	**$ 36**	$ 36	**$ 110**	$ 110
Interest cost	**818**	816	**2,455**	2,448
Expected return on plan assets	**(722)**	(918)	**(2,166)**	(2,754)
Net amortization and deferral	**262**		**786**	
Net periodic benefit cost (income)	**$ 394**	$ (66)	**$ 1,185**	$ (196)

(1) The Pension Plan service cost recorded for the three and nine months ended September 30, 2009 and 2008 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	
	2009	2008	**2009**	2008
	(in thousands)			
Service cost	**$ 37**	$ 132	**$ 218**	$ 390
Interest cost	**73**	184	**390**	538
Expected return on plan assets	**(1)**	(1)	**(3)**	(4)
Net accretion and deferral	**(81)**		**(162)**	
Net periodic benefit cost	**$ 28**	$ 315	**$ 443**	$ 924

NOTE G Derivative Financial Instruments

Effective January 1, 2009, the Corporation adopted Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities , codified as FASB ASC Section 815-10-50. As required by FASB ASC Section 815-10-50, the Corporation has included disclosures for its derivative instruments and for its hedging activities.

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 value of the interest rate locks and mortgage loans held for sale. Forward sales commitments may also be in the form of commitments to sell individual mortgage loans at a fixed price at a future date. Both the interest rate locks and the forward commitments are accounted for as derivatives and carried at fair value, determined as the amount that would be necessary to settle each derivative financial instrument at the balance sheet date. Gross derivative assets and liabilities are recorded within other assets and other liabilities on the consolidated balance sheets, with changes in fair value during the period recorded within gains on sales of mortgage loans on the consolidated statements of income.

The following table presents a summary of the Corporation s derivative financial instruments, none of which have been designated as hedging instruments:

	September 30, 2009		December 31, 2008	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
	(in thousands)			
Interest Rate Locks with Customers:				
Positive fair values	**$ 184,599**	**$ 1,958**	$ 103,824	$ 506
Negative fair values	**38,745**	**(57)**	37,321	(81)
Net Interest Rate Locks with Customers		**1,901**		425
Forward Commitments:				
Positive fair values	**39,694**	**445**	219,142	954
Negative fair values	**258,300**	**(3,495)**	271,306	(2,399)
Net Forward Commitments		**(3,050)**		(1,445)
Interest rate swaps (1)			10,000	18
		$ (1,149)		$ (1,002)

(1) Interest rate swaps recorded as a component of other liabilities on the consolidated balance sheets. All swaps existing at December 31, 2008 were called in the first quarter of 2009.

The following table presents a summary of the fair value gains and losses:

	Fair Value Gains (Losses)		Statement of Income Classification
	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009	
	(in thousands)		
Interest rate locks with customers	$ 2,187	$ 1,476	

			Gains on sales of mortgage loans
Forward commitments	(4,068)	(1,605)	Gains on sales of mortgage loans
Interest rate swaps		(18)	Other expense
	$ (1,881)	$ (147)	

NOTE H Commitments and Contingencies

Commitments

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

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

	September 30, 2009	December 31, 2008
	(in thousands)	
Commitments to extend credit	**$3,926,396**	$ 3,360,499
Standby letters of credit	**635,646**	789,804
Commercial letters of credit	**34,005**	37,620

As of September 30, 2009 and December 31, 2008, the reserve for unfunded lending commitments, included in other liabilities on the consolidated balance sheets, was $7.2 million and $6.2 million, respectively.

Auction Rate Securities

The Corporation s investment management and trust subsidiary, Fulton Financial Advisors, N.A. (FFA), previously held auction rate certificates (ARCs), for some of its customers accounts. Beginning in the second quarter of 2008, the Corporation offered to purchase illiquid ARCs from customers of FFA, upon notification that such customers had liquidity needs or otherwise desired to liquidate their holdings. A liability was established for this financial guarantee at estimated fair value through a pre-tax charge to earnings both upon the initial establishment of the guarantee and upon changes in its estimated fair value. The estimated fair value of the guarantee was determined based on the difference between the fair value of the underlying ARCs and their estimated purchase price.

During 2009, the Corporation completed the repurchase of all eligible ARCs and, as of September 30, 2009, there were no longer any ARCs still held by FFA s customers which the Corporation was had agreed to purchase.

The following table presents the change in the ARC investment balances held by customers and the related financial guarantee liability for the nine months ended September 30, 2009:

	ARCs Held by Customers, at Par Value	Financial Guarantee Liability
	(in thousands)	
Balance, beginning of period	$ 105,165	$ (8,653)
Provision for financial guarantee		(6,237)
Purchases of ARCs	(104,415)	14,890
Redemptions of ARCs	(750)	
Balance, end of period	$	$

Upon purchase from customers, the Corporation recorded ARCs as available for sale investment securities at their estimated fair value.

Residential Lending Contingencies

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

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

	September 30, 2009		December 31, 2008	
	Principal	**Reserves/ Write-downs**	Principal	Reserves/ Write-downs
		(in thousands)		
Outstanding repurchase requests (1) (2)	**$ 5,580**	**$ (3,540)**	$ 6,290	$ (2,900)
No repurchase request received sold loans with identified potential misrepresentations of borrower information (1) (2)	**3,650**	**(1,470)**	7,990	(3,280)
Repurchased loans (3)	**6,990**	**(1,160)**	10,000	(1,690)
Foreclosed real estate (OREO) (4)	**11,930**		15,920	
Total reserves/write-downs		**$ (6,170)**		$ (7,870)

(1) Principal balances had not been repurchased and, therefore, are not included on the consolidated balance sheets as of September 30, 2009 and December 31, 2008.

(2) Reserve balance included as a component of other liabilities on the consolidated balance sheets as of September 30, 2009 and December 31, 2008.

(3) Principal balances, net of write-downs, are included as a

component of loans, net of unearned income on the consolidated balance sheets as of September 30, 2009 and December 31, 2008.

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

During the nine months ended September 30, 2009, the Corporation recorded credits, included within operating risk loss on the consolidated statements of income, of $600,000, representing a reduction in required reserves associated with potential repurchase requests. During the three and nine months ended September 31, 2008, the Corporation recorded charges of $500,000 and $2.3 million, respectively, related to the potential and actual repurchase of previously sold residential mortgages.

Management believes that the reserves recorded as of September 30, 2009 are adequate for the known potential repurchases. However, continued declines in collateral values or the identification of additional loans to be repurchased could necessitate additional reserves in the future.

NOTE I FAIR VALUE OPTION

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

The Corporation elected to record mortgage loans held for sale which were originated after September 30, 2008 at fair value. Prior to October 1, 2008, mortgage loans held for sale were reported at the lower of aggregate cost or market. The Corporation elected to measure mortgage loans held for sale at fair value to more accurately reflect the financial performance of its entire mortgage banking activities in its consolidated financial statements. Derivative financial instruments related to these activities are also recorded at fair value, as noted within Note G, Derivative Financial Instruments . The Corporation determines fair value for its mortgage loans held for sale based on the price that secondary market investors would pay for loans with similar characteristics, including interest rate and term, as of the date fair value is measured. The Corporation classifies interest income earned on mortgage loans held for sale within interest income on the consolidated statements of income, which is separate from the fair value adjustments on loans held for sale, which are recorded as components of gains on sales of mortgage loans.

The following table presents a summary of the Corporation s fair value elections and their impact on the Corporation s consolidated balance sheets:

	Cost Asset (Liability)	Fair Value Asset (Liability)	Balance Sheet Classification
	(in thousands)		
September 30, 2009:			
Mortgage loans held for sale (1) (2)	**$ 75,543**	**$ 78,550**	Loans held for sale
December 31, 2008:			
Mortgage loans held for sale (1)	$ 64,787	$ 66,567	Loans held for sale
Hedged certificates of deposit (3)	(7,458)	(7,517)	Interest-bearing deposits
	$ 57,329	$ 59,050	

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

(2) For the three and nine months ended September 30, 2009, the Corporation recorded income of $1.1 million and $1.2 million, respectively, included within gains on sales of mortgage loans on the consolidated statements of income, representing the changes in fair values of mortgage loans held for sale.

(3) All hedged certificates of deposit were called in the first quarter of 2009.

NOTE J FAIR VALUE MEASUREMENTS

FASB ASC Topic 820 Fair Value Measurements

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

Level 1 Inputs that represent quoted prices for identical instruments in active markets.

Level 2 Inputs that represent quoted prices for similar instruments in active markets, or quoted prices for identical instruments in non-active markets. Also includes valuation techniques whose inputs are derived principally from observable market data other than quoted prices, such as interest rates or other market-corroborated means.

Level 3 Inputs that are largely unobservable, as little or no market data exists for the instrument being valued.

Companies are required to categorize all assets and liabilities measured at fair value on both a recurring and nonrecurring basis into the above three levels.

In April 2009, the FASB issued Staff Position No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly , codified as FASB ASC Sections 820-10-35 and 50, which provides additional guidance for estimating fair value in accordance with FASB ASC Topic 820 when the volume and level of activity for an asset or liability have declined significantly and includes guidance on identifying circumstances that indicate a transaction is not orderly. The Corporation elected to early adopt this staff position, effective March 31, 2009. The Corporation s available for sale debt securities include ARCs and pooled trust preferred securities and certain single-issuer trust preferred securities issued by financial institutions which, prior to the adoption of this staff position, were valued through means other than quoted market prices due the Corporation s conclusion that the market for the securities was not active. Therefore, the adoption of this staff position did not impact the Corporation s consolidated financial statements.

In August 2009, the FASB issued ASC Update No. 2009-05, Measuring Liabilities at Fair Value (ASC Update 2009-05). ASC Update 2009-05 amends ASC Topic 820 by allowing companies to determine the fair value of liabilities using the perspective of an investor that holds the related obligation as an asset as opposed to measuring liabilities based on the price that would be paid to transfer a liability to a new obligor. ASC Update 2009-05 was effective for the Corporation on September 30, 2009. The adoption of ASC Update 2009-05 did not impact the Corporation.

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 sheet as of September 30, 2009 were as follows:

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Mortgage loans held for sale	$	$ 78,550	$	$ 78,550
Available for sale investment securities	36,709	2,844,340	298,497	3,179,546
Other financial assets	13,706	2,403		16,109
Total assets	$ 50,415	$ 2,925,293	$ 298,497	$ 3,274,205
Other financial liabilities	$ 13,706	$ 3,552	$	$ 17,258

The valuation techniques used to measure fair value for the items in the table 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 value as of September 30, 2009 was measured as the price that secondary market investors were offering for loans with similar characteristics. See Note I, Fair Value Option for details related to the Corporation s election to measure assets and liabilities at fair value.

Available for sale investment securities Included within this asset category are both equity and debt securities. Equity securities consisting of stocks of financial institutions and mutual funds are listed as Level 1 assets, measured at fair value based on quoted prices for identical securities in active markets. Debt securities, excluding ARCs, pooled trust preferred securities and certain single-issuer trust preferred securities, and other equity securities are classified as Level 2 assets and consist of: U.S. government and U.S. government sponsored agency securities, state and municipal securities, corporate debt securities, collateralized mortgage obligations and mortgage-backed securities. 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. See Note C, Investment Securities for additional details related to the Corporation s available for sale investment securities.

ARCs, as discussed in Note H, Commitments and Contingencies , are classified as Level 3 assets and measured at fair value based on an independent third-party valuation. Due to their illiquidity, ARCs were valued through the use of an expected cash flows model. The assumptions used in preparing the expected cash flows model include estimates of coupon rates, time to maturity and market rates of return.

Pooled trust preferred securities and certain single-issuer trust preferred securities are also classified as Level 3 assets. The fair values of pooled trust preferred securities and $6.9 million of single-issuer trust preferred securities were determined based on quotes provided by third-party brokers who determined fair values based predominantly on internal valuation models and were not indicative prices or binding offers. The Corporation classified $67.1 million of other single-issuer trust preferred securities as Level 2 assets above.

Equity securities totaling $85.7 million, issued by the Federal Home Loan Bank and Federal Reserve Bank, have been excluded from the above table.

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 with customers and forward commitments with secondary market investors. The fair value of the Corporation s interest rate locks and forward commitments are determined as the amount that would be required to settle each derivative financial instrument at the balance sheet date. See Note G, Derivative Financial Instruments , for additional information.

Other financial liabilities Included within this category are: Level 1 employee deferred compensation liabilities which are the amounts due to employees under the deferred compensation plans described under the heading Other financial assets above; Level 2 mortgage banking derivatives, described under the heading Other financial assets above; and Level 3 financial guarantees associated with the Corporation s commitment to purchase ARCs held within customer accounts.

The fair value of the financial guarantee liability associated with ARCs held by the Corporation s customers was determined using the same methods as the ARCs held by the Corporation and described under the heading Available for sale investment securities above. The Corporation purchased all remaining ARCs held in customer accounts during the three months ended June 30, 2009, therefore, there is no balance outstanding as of September 30, 2009. See Note H, Commitments and Contingencies for additional information.

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, 2009:

Three Months Ended September 30, 2009

	Available for Sale Investment Securities			Other Financial Liabilities
	Pooled Trust Preferred Securities	Single-issuer Trust Preferred Securities	ARC Investments	ARC Financial Guarantee
	(in thousands)			
Balance, June 30, 2009	$ 4,915	$ 7,006	$ 289,575	$
Realized adjustment to fair value (2)	(1,846)			
Unrealized adjustment to fair value (3)	1,781	1,054	4,650	
Sales			(3,086)	
Redemptions			(6,135)	
(Premium amortization)/Discount accretion (4)	(4)	1	586	
Balance, September 30, 2009	$ 4,846	$ 8,061	$ 285,590	$

Nine Months Ended September 30, 2009

	Available for Sale Investment Securities			Other Financial Liabilities
	Pooled Trust Preferred Securities	Single-issuer Trust Preferred Securities	ARC Investments	ARC Financial Guarantee
	(in thousands)			
Balance, December 31, 2008	$ 15,381	$ 7,544	$ 195,900	$ (8,653)
Purchases (1)			89,383	14,890
Realized adjustment to fair value (2)	(6,475)			(6,237)
Unrealized adjustment to fair value (3)	(4,059)	514	7,797	
Sales			(3,086)	
Redemptions			(6,852)	
(Premium amortization)/Discount accretion (4)	(1)	3	2,448	
Balance, September 30, 2009	$ 4,846	$ 8,061	$ 285,590	$

(1) For ARC investments, amount represents ARCs acquired from customers, less an adjustment to fair value upon purchase.

For the ARC financial guarantee, amount represents the reversal of the guarantee liability due to the purchase of ARCs from customers.

(2) For pooled trust preferred securities, realized adjustments to fair value represent credit related other-than-temporary impairment charges that were recorded as a reduction to investment securities gains on the consolidated statements of income. For the ARC financial guarantee, the realized adjustment to fair value has been included as a component of operating risk loss on the Corporation s consolidated statements of income.

(3) Pooled trust preferred securities, single-issuer trust preferred securities, and ARC investments 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 Corporation s consolidated balance sheet.

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

Items Measured at Fair Value on a Nonrecurring Basis

Certain 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 sheet as of September 30, 2009 were as follows:

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Loans held for sale	$	$ 6,216	$	$ 6,216
Net loans			636,610	636,610
Other financial assets		11,480	20,751	32,231
Total assets	$	$ 17,696	$ 657,361	$ 675,057

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

Loans held for sale This category consists of loans held for sale that were measured at the lower of aggregate cost or fair value. Fair value was measured as the price that secondary market investors were offering for loans with similar characteristics.

Net loans This category includes commercial loans and commercial mortgage loans which were considered to be impaired under FASB ASC Section 310-10-35 and have been classified as Level 3 assets. Impaired loans are measured at fair value based on the present value of expected future cash flows discounted at the loan s effective interest rate, or at the loan s observable market price or fair value of its collateral, if the loan is collateral dependent. An allowance for loan losses is allocated to an impaired loan if its carrying value exceeds its estimated fair value. The amount shown is the balance of impaired loans, net of the related allowance for loan losses.

Other financial assets This category includes foreclosed assets that the Corporation obtained during the first nine months of 2009. Fair values for these Level 2 assets were based on estimated selling prices less estimated selling costs for similar assets in active markets.

Classified as Level 3 assets above are mortgage servicing rights (MSRs), which are initially recorded at fair value upon the sale of residential mortgage loans, which the Corporation continues to service, to secondary market investors. MSRs are amortized as a reduction to servicing income over the estimated lives of the underlying loans.

MSRs are evaluated quarterly for impairment, by comparing the carrying amount to estimated fair value. Fair value is determined at the end of each quarter through a discounted cash flows valuation. Significant inputs to the valuation include expected net servicing income, the discount rate and the expected life of the underlying loans.

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

In April 2009, the FASB issued Staff Position No. 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments , codified as FASB ASC Section 825-10-50. This staff position requires publicly traded companies to include all disclosures required by FASB ASC Section 825-10-50 in interim reporting periods as well as in annual financial statements. This staff position was effective for interim reporting periods ending after June 15, 2009, or June 30, 2009 for the Corporation.

The following table details the book values and estimated fair values of the Corporation s financial instruments as of September 30, 2009 and December 31, 2008. In addition, a general description of the methods and assumptions used to estimate such fair values is also provided below.

Fair values of financial instruments are significantly affected by assumptions used, principally the timing of future cash flows and discount rates. Because assumptions are inherently subjective in nature, the estimated fair values

cannot be substantiated by comparison to independent market quotes and, in many cases, the estimated fair values could not necessarily be realized in an immediate sale or settlement of the

instrument. Further, certain financial instruments and all non-financial instruments not measured at fair value on the Corporation s consolidated balance sheets are excluded. For financial instruments listed below which are not measured at fair value on the Corporation s consolidated balance sheets, the aggregate fair value amounts presented do not necessarily represent management s estimate of the underlying value of the Corporation.

	September 30, 2009		December 31, 2008	
	Book Value	**Estimated Fair Value**	Book Value	Estimated Fair Value
			(in thousands)	
FINANCIAL ASSETS				
Cash and due from banks	**$ 252,004**	**$ 252,004**	$ 331,164	$ 331,164
Interest-bearing deposits with other banks	**24,048**	**24,048**	16,791	16,791
Federal funds sold			4,919	4,919
Loans held for sale (1)	**84,766**	**84,766**	95,840	95,840
Securities held to maturity	**9,145**	**9,248**	9,636	9,765
Securities available for sale (1)	**3,265,254**	**3,265,254**	2,715,205	2,715,205
Loans, net of unearned income (1)	**11,968,246**	**11,634,700**	12,042,620	11,764,715
Accrued interest receivable	**60,433**	**60,433**	58,566	58,566
Other financial assets (1)	**128,072**	**128,072**	114,219	114,219
FINANCIAL LIABILITIES				
Demand and savings deposits	**$ 6,587,314**	**$ 6,587,314**	$ 5,453,799	$ 5,453,799
Time deposits (1)	**5,445,366**	**5,473,370**	5,098,117	5,137,078
Short-term borrowings	**722,618**	**722,618**	1,762,770	1,762,770
Accrued interest payable	**49,962**	**49,962**	53,678	53,678
Other financial liabilities (1)	**51,401**	**51,401**	73,203	73,203
Federal Home Loan Bank advances and long-term debt	**1,650,870**	**1,611,403**	1,787,797	1,765,815

(1) Description of fair value determinations for these financial instruments, or certain financial instruments within these categories, measured at fair value on the Corporation s consolidated balance sheets, are detailed under the

heading, FASB ASC Topic 820 Fair Value Measurements above.

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

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

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

The estimated fair values of securities held to maturity as of September 30, 2009 and December 31, 2008 were based on quoted market prices, broker quotes or dealer quotes.

For short-term loans and variable rate loans that reprice within 90 days, the carrying value was considered to be a reasonable estimate of fair value. For other types of loans, fair value was estimated by discounting future

cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

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

NOTE K Subsequent Events

In May 2009, the FASB issued Statement of Financial Accounting Standards No. 165, Subsequent Events , codified as FASB ASC Section 855-10-50, which establishes the general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued and was effective for the Corporation on June 30, 2009. The Corporation has evaluated subsequent events through November 9, 2009, the date these financial statements were issued.

NOTE L New Accounting Standards

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140 (Statement 166). Statement 166 amends the accounting for transfers of financial assets. Among its amendments to FASB Statement 140, it eliminates the concept of qualifying special-purpose entities, requires additional criteria to be met in order for the transfer of portions of financial assets to qualify for sale treatment, and expands the legal isolation criteria. Statement 166 is effective for a reporting entity s first annual reporting period that begins after November 15, 2009, or January 1, 2010 for the Corporation. The Corporation does not believe the adoption of Statement 166 will have a material impact on its consolidated financial statements.

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R) (Statement 167). Statement 167 amends the accounting for variable interest entities. Statement 167 amends the criteria for determining the primary beneficiary of, and the entity required to consolidate, a variable interest entity. Statement 167 is effective for a reporting entity s first annual reporting period that begins after November 15, 2009, or January 1, 2010 for the Corporation. The Corporation does not believe the adoption of Statement 167 will have a material impact on its consolidated financial statements.

NOTE M Reclassifications

Certain amounts in the 2008 consolidated financial statements and notes have been reclassified to conform to the 2009 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) concerns Fulton Financial Corporation (the Corporation), a corporation incorporated under the laws of the Commonwealth of Pennsylvania in 1982 which is a financial holding company, and its wholly owned subsidiaries. This discussion and analysis 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 acquisition and growth strategies; market risk; changes or adverse developments in economic, political, or regulatory conditions; a continuation or worsening of the current disruption in credit and other markets, including the lack of or reduced access to, and the abnormal functioning of markets for mortgages and other asset-backed securities and for commercial paper and other short-term borrowings; changes in the levels of Federal Deposit Insurance Corporation deposit insurance premiums and assessments; the effect of competition and interest rates on net interest margin and net interest income; investment strategy and income growth; investment securities gains and losses; declines in the value of securities which may result in charges to earnings; changes in rates of deposit and loan growth; asset quality and the impact on assets from adverse changes in the economy and in credit or other markets and resulting effects on credit risk and asset values; balances of risk-sensitive assets to risk-sensitive liabilities; salaries and employee benefits and other expenses; amortization of intangible assets; goodwill impairment; capital and liquidity strategies and other financial and business matters for future periods. The Corporation cautions that these forward-looking statements are subject to various assumptions, risks and uncertainties. Because of the possibility of changes in these assumptions, actual results could differ materially from forward-looking statements. The Corporation undertakes no obligations to update or revise any forward-looking statements.

RESULTS OF OPERATIONS

Overview

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	
	2009	2008	**2009**	2008
Net income available to common shareholders (in thousands)	**$18,300**	$29,076	**$34,419**	$ 96,250
Income before income taxes (in thousands)	**$29,171**	$38,778	**$59,344**	$132,075
Diluted net income per share	**$ 0.10**	$ 0.17	**$ 0.20**	$ 0.55
Return on average assets	**0.56%**	0.73%	**0.40%**	0.81%
Return on average common equity	**4.78%**	7.25%	**3.06%**	8.02%
Return on average tangible common equity (1)	**7.91%**	12.72%	**5.24%**	14.00%
Net interest margin (2)	**3.55%**	3.77%	**3.48%**	3.71%
Non-performing assets to total assets	**1.82%**	1.15%	**1.82%**	1.15%
Net charge-offs to average loans (annualized)	**0.81%**	0.38%	**0.93%**	0.29%

(1) Calculated as net income, adjusted for intangible asset amortization (net of tax), divided by average shareholders equity, excluding goodwill and intangible assets.

(2) Presented on a fully taxable-equivalent basis, using a 35% Federal tax rate and statutory interest expense disallowances. See also Net Interest Income section of Management s Discussion.

The Corporation s income before income taxes for the third quarter of 2009 decreased $9.6 million, or 24.8%, from the same period in 2008. Income before income taxes for the first nine months of 2009 decreased $72.7 million, or 55.1%, in comparison to the first nine months of 2008. The decreases in income before income taxes for the three and nine months ended September 30, 2009 in comparison to the same periods in 2008 were primarily due to the following significant items:

Decreases in income before income taxes:

Increases in the provision for loan losses of $18.3 million and $90.4 million for the three and nine months ended September 30, 2009, respectively. The increases in provision for loan losses were due to increases in the levels of non-performing assets and net charge-offs, resulting in additional allocations to the allowance for credit losses.

Increases in Federal Deposit Insurance Corporation (FDIC) insurance expense of $4.1 million and $19.1 million for the three and nine months ended September 30, 2009, respectively. The increases in FDIC insurance expense were primarily due to the increase in assessment rates in 2009 and a $7.7 million special assessment in the second quarter of 2009.

Decrease in other income of $13.9 million due to the pre-tax gain on the sale of the Corporation s credit card portfolio in the second quarter of 2008. During the second quarter of 2008, the Corporation sold its approximately $87 million credit card portfolio to U.S. Bank National Association ND, d/b/a Elan Financial Services, and recorded a $13.9 million pre-tax gain on the transaction.

Decreases in net interest income of $1.2 million and $6.9 million for the three and nine months ended September 30, 2009, respectively. The decreases in net interest income were due to declines in net interest margin, partially offset by increases in average interest-earning assets.

During 2008, interest rates declined significantly due to the Federal Reserve Board lowering the Federal funds rate from 4.25% at January 1, 2008 to 0-0.25% at December 31, 2008. The average prime rate decreased from 5.45% for the nine months ended September 30, 2008 to 3.25% for the nine months ended September 30, 2009. Asset yields declined further than rates paid on interest-

bearing liabilities. As a result, the Corporation s net interest margin for the three and nine months ended September 30, 2009 decreased in comparison to the same periods in 2008.

Increases in income before income taxes:

Reductions in other-than-temporary impairment charges on investments of $7.9 million and $30.1 million for the three and nine months ended September 30, 2009, respectively. The decreases in other-than-temporary impairment charges were related to equity and debt securities issued by financial institutions. During the three and nine months ended September 30, 2009, the Corporation recorded other-than-temporary impairment charges for financial institutions stocks of $949,000 and $2.6 million, respectively. In addition, the Corporation recorded other-than-temporary impairment charges for pooled trust preferred securities issued by financial institutions of $1.8 million and $6.5 million, respectively. In comparison, during the three and nine months ended September 30, 2008, other-than-temporary impairment charges for financial institutions stocks were $2.0 million and $30.3 million, respectively. In addition, other-than-temporary impairment charges for debt securities issued by financial institutions during the three and nine months ended September 30, 2008 were $7.8 million.

Reductions in contingent losses associated with the Corporation s guarantee to purchase illiquid auction rate certificates (ARCs) from customers of $2.7 million and $9.6 million for the three and nine months ended September 30, 2009, respectively. Beginning in the second quarter of 2008, the Corporation offered to purchase illiquid ARCs held by customers of its investment management and trust subsidiary, Fulton Financial Advisors, N.A. (FFA). During the second quarter of 2009, the Corporation purchased all remaining ARCs held by customers and, therefore, no contingent loss was required in the third quarter of 2009.

Increases in gains on sales of mortgage loans of $512,000 and $11.5 million for the three and nine months ended September 30, 2009, respectively. During 2009, low interest rates on residential mortgages resulted in a significant increase in residential mortgage refinances. As a result, the Corporation s volumes of residential mortgage sales and gains on such sales increased.

Quarter Ended September 30, 2009 compared to the Quarter Ended September 30, 2008

Net Interest Income

The following table provides a comparative average balance sheet and net interest income analysis for the third quarter of 2009 as compared to the same period in 2008. 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					
	2009			2008		
	Average Balance	**Interest (1)**	**Yield/ Rate**	Average Balance	Interest (1)	Yield/ Rate
ASSETS						
Interest-earning assets:						
Loans, net of unearned income (2)	**$ 11,913,581**	**$ 163,915**	**5.46%**	$ 11,696,841	$ 181,562	6.18%
Taxable investment securities (3)	**2,722,751**	**29,376**	**4.31**	2,117,207	26,025	4.92
Tax-exempt investment securities (3)	**436,209**	**6,101**	**5.59**	509,994	6,944	5.45
Equity securities (1) (3)	**132,176**	**632**	**1.90**	168,690	1,614	3.82
Total investment securities	**3,291,136**	**36,109**	**4.39**	2,795,891	34,583	4.95
Loans held for sale	**102,367**	**1,550**	**6.06**	101,319	1,539	6.08
Other interest-earning assets	**24,348**	**51**	**0.83**	19,013	142	2.94
Total interest-earning assets	**15,331,432**	**201,625**	**5.23%**	14,613,064	217,826	5.94%
Noninterest-earning assets:						
Cash and due from banks	**301,875**			322,550		
Premises and equipment	**204,416**			197,895		
Other assets	**959,628**			933,303		
Less: Allowance for loan losses	**(234,446)**			(123,865)		
Total Assets	**$ 16,562,905**			$ 15,942,947		
LIABILITIES AND EQUITY						
Interest-bearing liabilities:						
Demand deposits	**$ 1,883,087**	**$ 2,119**	**0.45%**	$ 1,734,198	$ 3,166	0.73%
Savings deposits	**2,556,717**	**5,187**	**0.80**	2,192,747	6,633	1.20
Time deposits	**5,554,349**	**36,519**	**2.61**	4,308,903	37,393	3.45
Total interest-bearing deposits	**9,994,153**	**43,825**	**1.74**	8,235,848	47,192	2.28
Short-term borrowings	**863,281**	**835**	**0.38**	2,432,109	12,877	2.08
FHLB advances and long-term debt	**1,695,427**	**20,400**	**4.77**	1,819,897	19,722	4.32
Total interest-bearing liabilities	**12,552,861**	**65,060**	**2.06%**	12,487,854	79,791	2.54%
Noninterest-bearing liabilities:						
Demand deposits	**1,922,460**			1,669,908		
Other	**198,314**			190,012		
Total Liabilities	**14,673,635**			14,347,774		
Shareholders equity	**1,889,270**			1,595,173		

Total Liabilities and Shareholders Equity	**$ 16,562,905**			$ 15,942,947	
Net interest income/net interest margin (FTE)		**136,565**	**3.55%**	138,035	3.77%
Tax equivalent adjustment		**(3,764)**		(4,017)	
Net interest income		**$ 132,801**		$ 134,018	

(1) Includes dividends earned on equity securities.

(2) Includes non-performing loans.

(3) Balances include amortized historical cost for available for sale securities. The related unrealized holding gains (losses) are included in other assets.

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

	2009 vs. 2008 Increase (decrease) due to change in		
	Volume	**Rate**	**Net**
	(in thousands)		
Interest income on:			
Loans, net of unearned income	**$ 3,389**	**$ (21,036)**	**$ (17,647)**
Taxable investment securities	**6,879**	**(3,528)**	**3,351**
Tax-exempt investment securities	**(1,024)**	**181**	**(843)**
Equity securities	**(295)**	**(687)**	**(982)**
Loans held for sale	**18**	**(7)**	**11**
Other interest-earning assets	**31**	**(122)**	**(91)**
Total interest income	**$ 8,998**	**$ (25,199)**	**$ (16,201)**
Interest expense on:			
Demand deposits	**$ 255**	**$ (1,302)**	**$ (1,047)**
Savings deposits	**988**	**(2,434)**	**(1,446)**
Time deposits	**9,458**	**(10,332)**	**(874)**
Short-term borrowings	**(5,319)**	**(6,723)**	**(12,042)**
FHLB advances and long-term debt	**(1,373)**	**2,051**	**678**
Total interest expense	**$ 4,009**	**$ (18,740)**	**$ (14,731)**

Interest income decreased $16.2 million, or 7.4%, due to a $25.2 million decrease as a result of changes in interest rates. During the third quarter of 2009, the average yield on interest-earning assets decreased 71 basis points, or 12.0%, in comparison to the third quarter of 2008. The decrease in interest income due to changes in rates was partially offset by a $9.0 million increase in interest income realized from growth in average interest-earning assets of $718.4 million, or 4.9%.

The increase in average interest-earning assets was due, in part, to loan growth, which is summarized, by type, in the following table:

		Three months ended September 30		Increase (decrease)	
		2009	2008	**$**	**%**
		(dollars in thousands)			
Real estate	commercial mortgage	**$ 4,158,802**	$ 3,806,311	$ 352,491	9.3%
Commercial	industrial, financial and agricultural	**3,667,854**	3,545,797	122,057	3.4
Real estate	home equity	**1,651,400**	1,619,687	31,713	2.0
Real estate	construction	**1,050,359**	1,324,085	(273,726)	(20.7)
Real estate	residential mortgage	**933,943**	947,510	(13,567)	(1.4)
Consumer		**371,676**	369,052	2,624	0.7
Leasing and other		**79,547**	84,399	(4,852)	(5.7)

Total	**$ 11,913,581**	$ 11,696,841	$ 216,740	1.9%

The growth in average loans was primarily in commercial mortgages, commercial loans and home equity loans. The increases in commercial mortgages and commercial loans were primarily in floating and adjustable rate products and largely resulted from market share opportunities. The increase in home equity loans was due to an increase in consumer demand.

Geographically, the increase in commercial mortgage loans was mainly attributable to increases within the Corporation s Pennsylvania ($173.0 million), Maryland ($92.0 million) and New Jersey ($75.4 million) banks, while the increase in commercial loans was due to increases in Pennsylvania ($129.3 million) and New Jersey ($23.8 million) banks, offset by a decrease in Maryland ($35.4 million).

Offsetting these increases was a decrease in construction loans, due to a slowdown in residential housing construction and the Corporation s efforts to reduce its credit exposure in this sector. Geographically, the decrease was attributable to decreases in the Corporation s Maryland ($129.2 million), Pennsylvania ($53.4 million), Virginia ($45.2 million) and New Jersey ($38.9 million) banks.

The average yield on loans decreased 72 basis points, or 11.7%, from 6.18% in 2008 to 5.46% in 2009. The decrease in yield reflected a lower interest rate environment, as illustrated by a lower average prime rate during the third quarter of 2009 (3.25%) as compared to the same period in 2008 (5.00%). The decrease in average yields was not as pronounced as the decrease in the average prime rate as fixed and adjustable rate loans, unlike floating rate loans, have a lagged repricing effect during periods of short-term rate declines.

Average investments increased $495.2 million, or 17.7%, due in large part, to increases in collateralized mortgage obligations and ARCs. The increase in ARCs was related to purchases of those securities from customers, increasing total average investments by $158.6 million. The increase in collateralized mortgage obligations was due to the allocation of proceeds from significant deposit growth and, to a lesser extent, to the use of funds received from the issuance of preferred stock to the U.S. Treasury Department (UST) in December 2008.

The average yield on investments decreased 56 basis points, or 11.3%, from 4.95% in 2008 to 4.39% in 2009, as reinvestment of cash flows and incremental purchases were at yields that were lower than the overall portfolio yield. In addition, investment yields were adversely impacted by the reduction, or in some cases the suspension of, dividends on equities, particularly financial institutions stocks and Federal Home Loan Bank (FHLB) stocks.

The $16.2 million decrease in interest income was partially offset by a decrease in interest expense of $14.7 million, or 18.5%, to $65.1 million in the third quarter of 2009 from $79.8 million in the same period in 2008. Interest expense decreased $18.7 million as a result of a 48 basis point, or 18.9%, decrease in the average cost of interest-bearing liabilities. This decrease was partially offset by a $4.0 million increase in interest expense resulting from growth in average interest-bearing liabilities of $65.0 million, or 0.5%.

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

	Three months ended September 30		**Increase**	
	2009	2008	**$**	**%**
	(dollars in thousands)			
Noninterest-bearing demand	**$ 1,922,460**	$ 1,669,908	$ 252,552	15.1%
Interest-bearing demand	**1,883,087**	1,734,198	148,889	8.6
Savings	**2,556,717**	2,192,747	363,970	16.6
Total, excluding time deposits	**6,362,264**	5,596,853	765,411	13.7
Time deposits	**5,554,349**	4,308,903	1,245,446	28.9
Total	**$ 11,916,613**	$ 9,905,756	$ 2,010,857	20.3%

The Corporation experienced an increase in noninterest-bearing and interest-bearing demand and savings accounts of $765.4 million, or 13.7%. The increase in noninterest-bearing demand accounts was primarily in business accounts, while the increase in interest-bearing demand and savings accounts was in business, personal and governmental accounts. The growth in business accounts due, in part, to businesses being

required to keep higher balances on hand to offset service fees, as well as a movement from the Corporation s cash management products due to the current low rates.

The increase in time deposits was due, in large part, to active promotion during late 2008 and throughout the first quarter of 2009. In the short-term, this certificate of deposit growth had a negative impact on net interest income and net interest margin as alternative funding sources, such as short-term borrowings, currently carry a lower cost than time deposits. However, this shift in funding sources was consistent with the Corporation s focus on building customer relationships, which has served to strengthen the Corporation s overall liquidity profile.

The average cost of interest-bearing deposits decreased 54 basis points, or 23.7%, from 2.28% in 2008 to 1.74% in 2009 due to a decrease in cost of certificates of deposit. The average cost of certificates of deposit decreased 84 basis points, or 24.3%, due to the maturity and renewal of certificates of deposits at lower rates in 2009.

As average deposits increased, short-term and long-term borrowings decreased, as summarized in the following table:

	Three months ended September 30		**Increase (decrease)**	
	2009	2008	**$**	**%**
	(dollars in thousands)			
Short-term borrowings:				
Customer short-term promissory notes	**$ 259,534**	$ 486,179	$ (226,645)	(46.6%)
Customer repurchase agreements	**254,789**	213,827	40,962	19.2
Total short-term customer funding	**514,323**	700,006	(185,683)	(26.5)
Federal funds purchased	**348,444**	1,399,130	(1,050,686)	(75.1)
FHLB overnight repurchase agreements		290,761	(290,761)	(100.0)
Other short-term borrowings	**514**	42,212	(41,698)	(98.8)
Total other short-term borrowings	**348,958**	1,732,103	(1,383,145)	(79.9)
Total short-term borrowings	**863,281**	2,432,109	(1,568,828)	(64.5)
Long-term debt:				
FHLB advances	**1,312,304**	1,436,741	(124,437)	(8.7)
Other long-term debt	**383,123**	383,156	(33)	
Total long-term debt	**1,695,427**	1,819,897	(124,470)	(6.8)
Total	**$ 2,558,708**	$ 4,252,006	$ (1,693,298)	(39.8%)

The decrease in short-term borrowings was the result of a $1.1 billion decrease in Federal funds purchased and a $290.8 million decrease in FHLB overnight repurchase agreements. Also contributing to the decrease was a $185.7 million decrease in short-term customer funding, due to customers transferring funds from the cash management program to deposits due to the low interest rate environment. The decrease in long-term debt was due to maturities of FHLB advances.

Provision for Loan Losses and Allowance for Credit Losses

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

	Three months ended September 30	
	2009	2008
	(dollars in thousands)	
Loans, net of unearned income outstanding at end of period	**$ 11,968,246**	$ 11,823,529
Daily average balance of loans, net of unearned income	**$ 11,913,581**	$ 11,696,841
Balance of allowance for credit losses at beginning of period	**$ 220,954**	$ 126,223
Loans charged off:		
Real estate construction	**9,356**	2,733
Commercial industrial, agricultural and financial	**7,787**	4,684
Real estate commercial mortgage	**3,554**	2,405
Real estate residential mortgage and home equity	**1,065**	719
Consumer	**2,527**	991
Leasing and other	**1,637**	1,166
Total loans charged off	**25,926**	12,698
Recoveries of loans previously charged off:		
Real estate construction	**26**	17
Commercial industrial, agricultural and financial	**444**	749
Real estate commercial mortgage	**493**	88
Real estate residential mortgage and home equity	**1**	133
Consumer	**354**	304
Leasing and other	**375**	313
Total recoveries	**1,693**	1,604
Net loans charged off	**24,233**	11,094
Provision for loan losses	**45,000**	26,700
Balance of allowance for credit losses at end of period	**$ 241,721**	$ 141,829
Components of Allowance for Credit Losses:		
Allowance for loan losses	**$ 234,511**	$ 136,988
Reserve for unfunded lending commitments	**7,210**	4,841
Allowance for credit losses	**$ 241,721**	$ 141,829
Selected Ratios:		
Net charge-offs to average loans (annualized)	**0.81%**	0.38%
Allowance for credit losses to loans outstanding	**2.02%**	1.20%

Allowance for loan losses to loans outstanding	**1.96%**	1.16%

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

	September 30 2009	September 30 2008	December 31 2008
		(dollars in thousands)	
Non-accrual loans	**$ 228,961**	$ 143,310	$ 161,962
Loans 90 days past due and accruing	**52,797**	21,354	35,177
Total non-performing loans	**281,758**	164,664	197,139
Other real estate owned (OREO)	**19,151**	21,706	21,855
Total non-performing assets	**$ 300,909**	$ 186,370	$ 218,994
Non-accrual loans to total loans	**1.91%**	1.21%	1.34%
Non-performing assets to total assets	**1.82%**	1.15%	1.35%
Allowance for credit losses to non-performing loans	**85.79%**	86.13%	91.38%
Non-performing assets to tangible common shareholders equity and allowance for credit losses	**24.24%**	17.00%	19.68%

Excluded from preceding table were $33.1 million of loans whose terms were modified under a troubled debt restructuring and were current under their modified terms at September 30, 2009. These troubled debt restructurings were predominantly adequately collateralized residential mortgage loans.

The following table summarizes loan delinquency rates, by type, as of the indicated dates:

	September 30, 2009			December 31, 2008		
	30-60 Days	**> 90 Days**	**Total**	30-60 Days	> 90 Days	Total
Real estate construction	**1.25%**	**10.12%**	**11.37%**	2.06%	6.15%	8.21%
Commercial industrial, agricultural and financial	**0.61**	**1.65**	**2.26**	0.56	1.08	1.64
Real estate commercial mortgage	**0.53**	**1.31**	**1.84**	0.74	1.03	1.77
Real estate residential mortgage	**4.14**	**5.14**	**9.28**	4.14	2.97	7.11
Consumer, home equity, leasing and other	**1.14**	**0.60**	**1.74**	0.82	0.41	1.23
Total	**1.00%**	**2.34%**	**3.34%**	1.11%	1.64%	2.75%

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

	September 30 2009	September 30 2008	December 31 2008
		(in thousands)	
Real estate construction	**$ 104,789**	$ 57,436	$ 80,083
Commercial industrial, agricultural and financial	**63,217**	41,489	40,294
Real estate commercial mortgage	**54,930**	32,642	41,745
Real estate residential mortgage and home equity	**46,192**	26,274	26,304
Consumer	**12,292**	6,558	8,374

Leasing	**338**	265	339
Total non-performing loans	**$ 281,758**	$ 164,664	$ 197,139

Non-performing assets increased to $300.9 million, or 1.82% of total assets, at September 30, 2009, from $186.4 million, or 1.15% of total assets, at September 30, 2008. The increase in non-performing assets in comparison to September 30, 2008 was primarily due to a $47.4 million, or 82.4%, increase in non-performing construction loans, a $22.3 million, or 68.3%, increase in non-performing commercial

mortgages, a $21.7 million, or 52.4%, increase in non-performing commercial loans and a $19.9 million, or 75.8%, increase in non-performing residential mortgage and home equity loans.

The $47.4 million increase in non-performing construction loans was related to the slowdown of residential housing activity and deteriorating real estate values, particularly within the Corporation s Maryland and Virginia markets, which accounted for $77.2 million, or 73.7%, of the $104.8 million of non-performing construction loans at September 30, 2009. Remaining non-performing construction loans at September 30, 2009 of $18.9 million and $8.6 million were in the Corporation s New Jersey and Pennsylvania markets, respectively.

The $22.3 million increase in non-performing commercial mortgages was due primarily to an increase in non-performing loans in the Corporation s New Jersey market. The $21.7 million increase in non-performing commercial loans was caused by an increase in non-performing loans in the Corporation s Pennsylvania market. The $19.9 million increase in non-performing residential housing and home equity loans was spread across most of the Corporation s geographical markets.

The $19.2 million balance of OREO as of September 30, 2009 included $11.9 million of foreclosures on repurchased residential mortgage loans and $4.4 million of foreclosed commercial loan properties.

Net charge-offs increased $13.1 million, or 118.4%, to $24.2 million for the third quarter of 2009 compared to $11.1 million for the third quarter of 2008. Annualized net charge-offs to average loans increased 43 basis points, or 113.2%, to 81 basis points for the third quarter of 2009. Of the $24.2 million of net charge-offs recorded for the third quarter of 2009, 35.1% was for banks located in New Jersey, 24.4% in Virginia, 20.8% in Pennsylvania, 16.7% in Maryland and 3.0% in Delaware. During the third quarter of 2009, there were four individual charge-offs which exceeded $1.0 million, with an aggregate amount of $5.9 million, of which $4.7 million were loans to customers whose businesses were negatively impacted by the downturn in residential real estate.

The provision for loan losses totaled $45.0 million for the third quarter of 2009, an increase of $18.3 million, or 68.5%, over the same period in 2008. This significant increase in the provision for loan losses was related to the increase in non-performing loans and net charge-offs, and the resulting need for additional allocations to the allowance for credit losses.

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

	September 30 2009	September 30 2008	December 31 2008
		(in thousands)	
Real-estate commercial mortgage	**$ 4,186,654**	$ 3,873,802	$ 4,016,700
Commercial industrial, agricultural and financial	**3,719,966**	3,554,615	3,635,544
Real-estate home equity	**1,651,711**	1,647,063	1,695,398
Real-estate construction	**1,029,079**	1,308,008	1,269,330
Real-estate residential mortgage	**930,207**	972,930	972,797
Consumer	**375,685**	388,032	365,692
Leasing and other	**74,944**	79,079	87,159
Loans, net of unearned income	**$ 11,968,246**	$ 11,823,529	$ 12,042,620

Approximately $5.2 billion, or 43.6%, of the Corporation s loan portfolio was in commercial mortgage and construction loans at September 30, 2009. The performance of real estate markets and general economic conditions have adversely impacted the performance of these loans, most significantly construction loans to residential housing developers by the Corporation s Maryland and Virginia banks. Construction loans outstanding for the Corporation s Virginia and Maryland banks at September 30, 2009 were $266.2 million and $260.4 million, respectively.

Commercial loans comprise 31.1% of the total loan portfolio. The credit quality of these loans has been impacted by generally poor economic conditions as evidenced by an increasing level of non-performing loans in this portfolio since December 31, 2008. In particular, the credit quality of loans to commercial borrowers whose businesses are related to the residential housing industry continued to deteriorate during the third quarter of 2009.

Approximately $2.6 billion, or 21.6%, of the Corporation s loan portfolio was in residential mortgage and home equity loans at September 30, 2009. Decreases in residential real estate values in some of the Corporation s geographic areas, most notably in portions of Maryland, New Jersey and Virginia, and generally poor economic conditions have resulted in increases in non-performing loans and negatively impacted the overall credit quality of the portfolio.

Management believes that the allowance for credit losses of $241.7 million at September 30, 2009 is sufficient to cover losses inherent in both the loan portfolio and the unfunded lending commitments as of that date and is appropriate based on applicable accounting standards.

Other Income

The following table presents the components of other income:

	Three months ended September 30		**Increase (decrease)**	
	2009	2008	**$**	**%**
	(dollars in thousands)			
Service charges on deposit accounts	**$ 15,321**	$ 16,177	$ (856)	(5.3%)
Other service charges and fees	**10,003**	9,598	405	4.2
Investment management and trust services	**8,191**	8,045	146	1.8
Gains on sales of mortgage loans	**2,778**	2,266	512	22.6
Credit card income	**1,520**	1,356	164	12.1
Gains on sales of OREO	**521**	164	357	217.7
Other	**2,891**	2,710	181	6.7
Total, excluding investment securities losses	**41,225**	40,316	909	2.3
Investment securities losses	**(45)**	(9,501)	9,456	99.5
Total	**$ 41,180**	$ 30,815	$ 10,365	33.6%

The $856,000, or 5.3%, decrease in service charges on deposit accounts was due primarily to a $722,000, or 21.4%, decrease in cash management fees and a $122,000, or 1.3%, decrease in overdraft fees. The decrease in cash management fees was due to customers transferring funds from the cash management program to deposits due to the low interest rate environment.

The $405,000, or 4.2%, increase in other service charges was primarily due to a $347,000, or 13.8%, increase in debit card fees due to transaction volume increases.

Gains on sales of mortgage loans increased $512,000, or 22.6%, due to an increase in the volume of loans sold. Total loans sold in the third quarter of 2009 were $579.6 million, compared to $172.7 million in the third quarter of 2008. The $406.8 million, or 235.5%, increase in the volume of loans sold was mainly due to an increase in refinance activity, as rates remained relatively low in comparison to the prior year. For the three months ended September 30, 2009, 58% of loans originated for sale represented refinances, compared to 31% for the same period in 2008.

Investment securities losses of $45,000 for the third quarter of 2009 included $2.8 million of net gains on the sales of securities, offset by $2.8 million of other-than-temporary impairment charges. The

Corporation recorded $1.8 million of other-than-temporary impairment charges for pooled trust preferred securities issued by financial institutions and $949,000 of other-than-temporary impairment charges related to financial institutions stocks. The $9.5 million of investment securities losses for the third quarter of 2008 was due primarily to $7.8 million of other-than-temporary impairment charges for debt securities issued by financial institutions, $2.0 million of other-than-temporary impairment charges related to financial institutions stocks and $816,000 of other-than-temporary impairment charges for other equity securities, offset by $1.2 million of net gains on the sales of investment securities. See Note C, Investment Securities in the Notes to Consolidated Financial Statements for additional details.

Other Expenses

The following table presents the components of other expenses:

	Three months ended September 30		Increase (decrease)	
	2009	2008	**$**	**%**
	(dollars in thousands)			
Salaries and employee benefits	**$ 54,086**	$ 55,310	$ (1,224)	(2.2%)
Net occupancy expense	**10,165**	10,237	(72)	(0.7)
FDIC insurance expense	**5,244**	1,147	4,097	357.2
Equipment expense	**3,281**	3,061	220	7.2
Data processing	**3,121**	3,242	(121)	(3.7)
Professional fees	**2,386**	1,575	811	51.5
Telecommunications	**2,139**	2,001	138	6.9
Marketing	**1,982**	3,097	(1,115)	(36.0)
Supplies	**1,453**	1,418	35	2.5
Intangible amortization	**1,429**	1,730	(301)	(17.4)
Postage	**1,365**	1,307	58	4.4
OREO expense	**1,095**	1,471	(376)	(25.6)
Operating risk loss	**338**	3,480	(3,142)	(90.3)
Other	**11,726**	10,279	1,447	14.1
Total	**$ 99,810**	$ 99,355	$ 455	0.5%

Salaries and employee benefits decreased $1.2 million, or 2.2%, with salaries decreasing $1.6 million, or 3.5%, and employee benefits increasing $363,000, or 3.8%. The decrease in salaries was primarily due to a $1.0 million decrease in bonus expense, in addition to a decrease in average full-time equivalent employees from 3,670 in the third quarter of 2008 to 3,580 in the third quarter of 2009. The decrease in average full-time equivalent employees was primarily due to the consolidation of Columbia Bank s back office functions in the third quarter of 2009.

The $363,000 increase in employee benefits was primarily due to a $460,000 increase in defined benefit pension plan expense due to lower returns on plan assets and a $438,000 increase in healthcare costs as claims costs increased, offset by a $287,000 reduction in postretirement plan expense due to a reduction in benefits covered and a $180,000 decrease in severance costs.

The $4.1 million increase in FDIC insurance expense was due to an increase in assessment rates, which were effective January 1, 2009, as well as the expiration of one-time credits, the remaining balance of which were utilized during the first quarter of 2009. In the third quarter of 2008, gross FDIC insurance premiums were $1.8 million and were reduced by $664,000 of one-time credits.

The $811,000 increase in professional fees was primarily due to increased legal costs associated with collection and workout efforts for non-performing loans. The $1.1 million decrease in marketing expenses was due to an effort to reduce discretionary spending and to the timing of promotional campaigns. The $301,000 decrease in intangible amortization was mainly due to a decrease in core deposit intangible asset

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amortization. The $376,000 decrease in OREO expense was due to a $618,000 decrease in loss provisions, offset by a $242,000 increase in carrying costs.

The $3.1 million decrease in operating risk loss was due to a $2.7 million reduction in charges related to the Corporation s commitment to purchase ARCs from customer accounts and a $500,000 decrease in losses on the actual and potential repurchase of residential mortgage and home equity loans. See Note H, Commitments and Contingencies in the Notes to Consolidated Financial Statements for additional details.

The $1.4 million increase in other expenses was due to $1.1 million in costs associated with the consolidation of Columbia Bank s back office functions in the third quarter of 2009 and an increase in loan collection and workout costs.

Income Taxes

Income tax expense for the third quarter of 2009 was $5.8 million, a $3.9 million, or 40.0%, decrease from $9.7 million in 2008. The decrease was primarily due to a decrease in income before income taxes.

The Corporation s effective tax rate was 20.0% in 2009, as compared to 25.0% in 2008. The effective rate is generally lower than the Federal statutory rate of 35% due to investments in tax-free municipal securities and Federal tax credits earned from investments in low and moderate-income housing partnerships. The effective rate for the third quarter of 2009 is lower than the same period in 2008 due to non-taxable income and tax credits having a larger impact on the effective rate due to the $9.6 million decrease in income before income taxes.

Nine Months Ended September 30, 2009 Compared to the Nine Months Ended September 30, 2008

Net Interest Income

The following table provides a comparative average balance sheet and net interest income analysis for the first nine months of 2009 as compared to the same period in 2008. 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.

	Nine months ended September 30					
	2009			2008		
	Average Balance	**Interest (1)**	**Yield/ Rate**	Average Balance	Interest (1)	Yield/ Rate
ASSETS						
Interest-earning assets:						
Loans, net of unearned income (2)	**$ 11,971,378**	**$ 491,412**	**5.49%**	$ 11,472,748	$ 554,437	6.45%
Taxable investment securities (3)	**2,538,045**	**85,648**	**4.50**	2,275,681	84,114	4.93
Tax-exempt investment securities (3)	**467,242**	**19,413**	**5.54**	511,871	20,831	5.43
Equity securities (1) (3)	**134,710**	**2,066**	**2.05**	192,803	5,723	3.96
Total investment securities	**3,139,997**	**107,127**	**4.55**	2,980,355	110,668	4.95
Loans held for sale	**115,388**	**4,439**	**5.13**	102,819	4,726	6.13
Other interest-earning assets	**20,754**	**140**	**0.90**	20,701	462	2.96
Total interest-earning assets	**15,247,517**	**603,118**	**5.29%**	14,576,623	670,293	6.14%
Noninterest-earning assets:						
Cash and due from banks	**301,009**			318,844		
Premises and equipment	**203,919**			196,977		
Other assets	**940,974**			948,134		
Less: Allowance for loan losses	**(211,105)**			(116,598)		
Total Assets	**$ 16,482,314**			$ 15,923,980		
LIABILITIES AND EQUITY						
Interest-bearing liabilities:						
Demand deposits	**$ 1,819,135**	**$ 5,896**	**0.43%**	$ 1,709,380	$ 10,538	0.82%
Savings deposits	**2,309,103**	**13,941**	**0.81**	2,179,432	22,396	1.37
Time deposits	**5,538,068**	**121,890**	**2.94**	4,396,409	128,873	3.92
Total interest-bearing deposits	**9,666,306**	**141,727**	**1.96**	8,285,221	161,807	2.61
Short-term borrowings	**1,186,568**	**3,193**	**0.36**	2,365,052	44,093	2.46
FHLB advances and long-term debt	**1,754,010**	**61,744**	**4.71**	1,829,981	60,714	4.43
Total interest-bearing liabilities	**12,606,884**	**206,664**	**2.19%**	12,480,254	266,614	2.85%
Noninterest-bearing liabilities:						
Demand deposits	**1,798,522**			1,649,560		
Other	**202,209**			190,487		
Total Liabilities	**14,607,615**			14,320,301		

Shareholders equity	**1,874,699**			1,603,679	
Total Liabilities and Shareholders Equity	**$ 16,482,314**			$ 15,923,980	
Net interest income/net interest margin (FTE)		**396,454**	**3.48%**	403,679	3.71%
Tax equivalent adjustment		**(11,593)**		(11,872)	
Net interest income		**$ 384,861**		$ 391,807	

(1) Includes dividends earned on equity securities.

(2) Includes non-performing loans.

(3) Balances include amortized historical cost for available for sale securities. The related unrealized holding gains (losses) are included in other assets.

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

	2009 vs. 2008 Increase (decrease) due to change in		
	Volume	**Rate**	**Net**
	(in thousands)		
Interest income on:			
Loans, net of unearned income	**$ 22,920**	**$ (85,945)**	**$ (63,025)**
Taxable investment securities	**9,158**	**(7,624)**	**1,534**
Tax-exempt investment securities	**(1,861)**	**443**	**(1,418)**
Equity securities	**(1,405)**	**(2,252)**	**(3,657)**
Loans held for sale	**534**	**(821)**	**(287)**
Other interest-earning assets	**1**	**(323)**	**(322)**
Total interest income	**$ 29,347**	**$ (96,522)**	**$ (67,175)**
Interest expense on:			
Demand deposits	**$ 637**	**$ (5,279)**	**$ (4,642)**
Savings deposits	**1,259**	**(9,714)**	**(8,455)**
Time deposits	**29,129**	**(36,112)**	**(6,983)**
Short-term borrowings	**(15,073)**	**(25,827)**	**(40,900)**
FHLB advances and long-term debt	**(2,603)**	**3,633**	**1,030**
Total interest expense	**$ 13,349**	**$ (73,299)**	**$ (59,950)**

Interest income decreased $67.2 million, or 10.0%, due to a $96.5 million decrease as a result of changes in interest rates. During the first nine months of 2009, the average yield on interest-earning assets decreased 85 basis points, or 13.8%, in comparison to the first nine months of 2008. The decrease in interest income due to changes in rates was partially offset by a $29.3 million increase in interest income realized from growth in average interest-earning assets of $670.9 million, or 4.6%.

The increase in average interest-earning assets was due mainly to loan growth, which is summarized, by type, in the following table:

		Nine months ended September 30		Increase (decrease)	
		2009	2008	**$**	**%**
		(dollars in thousands)			
Real estate	commercial mortgage	**$ 4,100,119**	$ 3,673,874	$ 426,245	11.6%
Commercial	industrial, financial and agricultural	**3,660,083**	3,504,467	155,616	4.4
Real estate	home equity	**1,672,678**	1,571,567	101,111	6.4
Real estate	construction	**1,143,476**	1,332,548	(189,072)	(14.2)
Real estate	residential mortgage	**942,407**	898,875	43,532	4.8
Consumer		**368,109**	406,196	(38,087)	(9.4)
Leasing and other		**84,506**	85,221	(715)	(0.8)

Total	**$ 11,971,378**	$ 11,472,748	$ 498,630	4.3%

Loan growth in the first nine months of 2009 in comparison to the first nine months of 2008 was primarily in commercial mortgages, with growth also occurring in commercial loans, home equity loans and residential mortgages. The increases in commercial mortgages and commercial loans were primarily in floating and adjustable rate products. The increase in home equity loans was due to an increase in consumer demand.

Geographically, the increase in commercial mortgage loans was mainly attributable to increases within the Corporation s Pennsylvania ($218.9 million), New Jersey ($91.0 million) and Maryland ($82.0 million) banks, while the increase in commercial loans was due to increases in Pennsylvania ($131.6 million), New Jersey ($25.9 million) and Virginia ($21.0 million) banks, offset by a decrease in Maryland ($22.0 million).

Offsetting these increases was a $189.1 million decrease in construction loans and a $38.1 million decrease in consumer loans. The decrease in construction loans was due to a slowdown in residential housing construction and the Corporation s efforts to reduce its credit exposure in this sector, particularly within its Maryland and Virginia markets. The decrease in consumer loans was largely due to the sale of the Corporation s credit card portfolio during the second quarter of 2008 and partially due to a decrease in the indirect automobile loan portfolio.

The average yield on loans decreased 96 basis points, or 14.9%, from 6.45% in 2008 to 5.49% in 2009. The decrease in yield reflected a lower interest rate environment, as illustrated by a lower average prime rate during the first nine months of 2009 (3.25%) as compared to the first nine months of 2008 (5.45%). The decrease in average loan yields was not as pronounced as the decrease in the average prime rate as fixed and adjustable rate loans, unlike floating rate loans, have a lagged repricing effect during periods of short-term rate declines.

Average investments increased $159.6 million, or 5.4%, due primarily to Corporation s purchase of ARCs from customers, which increased average investments by $201.8 million. The average yield on investments decreased 40 basis points, or 8.1%, from 4.95% in 2008 to 4.55% in 2009 as reinvestment of portfolio cash flows and incremental purchases were at yields that were lower than the overall portfolio yield. Investment yields were also adversely impacted by the reduction, or in some cases the suspension of, dividends on equities, particularly financial institutions stocks and FHLB stocks. In addition, the $201.8 million increase in the average balances of ARCs resulted in an 8 basis point decrease in average yield.

The $67.2 million decrease in interest income was partially offset by a decrease in interest expense of $60.0 million, or 22.5%, to $206.7 million in the first nine months of 2009. Interest expense decreased $73.3 million as a result of a 66 basis point, or 23.2%, decrease in the average cost of interest-bearing liabilities. This decrease was slightly offset by a $13.3 million increase in interest expense caused by growth in average interest-bearing liabilities of $126.6 million, or 1.0%.

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

	Nine months ended September 30		**Increase**	
	2009	2008	**$**	**%**
	(dollars in thousands)			
Noninterest-bearing demand	**$ 1,798,522**	$ 1,649,560	$ 148,962	9.0%
Interest-bearing demand	**1,819,135**	1,709,380	109,755	6.4
Savings	**2,309,103**	2,179,432	129,671	5.9
Total, excluding time deposits	**5,926,760**	5,538,372	388,388	7.0
Time deposits	**5,538,068**	4,396,409	1,141,659	26.0
Total	**$ 11,464,828**	$ 9,934,781	$ 1,530,047	15.4%

The Corporation experienced an increase in noninterest-bearing and interest-bearing demand and savings accounts of $388.4 million, or 7.0%. The increase in noninterest-bearing demand accounts was in business accounts, while the increase in interest-bearing demand and savings accounts was primarily in governmental accounts. The growth in business accounts due, in part, to businesses being required to keep

higher balances on hand to offset service fees, as well as a movement from the Corporation s cash management products due to the current low rates.

The increase in time deposits was due to a $1.1 billion increase in customer certificates of deposit and a $55.0 million increase in brokered certificates of deposit. The increase in customer certificates of deposit was due to the promotion of a variable rate product during late 2008 and throughout the first quarter of 2009. These average deposit increases were used to reduce the Corporation s short and long-term borrowings.

The average cost of interest-bearing deposits decreased 65 basis points, or 24.9%, from 2.61% in 2008 to 1.96% in 2009 due to a decrease in cost of certificates of deposit. The average cost of certificates of deposit decreased 98 basis points, or 25.0%, due to the maturity and renewal of certificates of deposits at lower rates in 2009.

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

	Nine months ended September 30		**Increase (decrease)**	
	2009	2008	**$**	**%**
	(dollars in thousands)			
Short-term borrowings:				
Customer short-term promissory notes	**$ 297,831**	$ 475,523	$ (177,692)	(37.4%)
Customer repurchase agreements	**252,539**	221,253	31,286	14.1
Total short-term customer funding	**550,370**	696,776	(146,406)	(21.0)
Federal funds purchased	**571,864**	1,296,074	(724,210)	(55.9)
Federal Reserve Bank borrowings	**61,685**		61,685	N/A
FHLB overnight repurchase agreements		346,770	(346,770)	(100.0)
Other short-term borrowings	**2,649**	25,432	(22,783)	(89.6)
Total other short-term borrowings	**636,198**	1,668,276	(1,032,078)	(61.9)
Total short-term borrowings	**1,186,568**	2,365,052	(1,178,484)	(49.8)
Long-term debt:				
FHLB advances	**1,370,860**	1,447,161	(76,301)	(5.3)
Other long-term debt	**383,150**	382,820	330	0.1
Total long-term debt	**1,754,010**	1,829,981	(75,971)	(4.2)
Total	**$ 2,940,578**	$ 4,195,033	$ (1,254,455)	(29.9%)

N/A Not applicable

The decrease in short-term borrowings was a result of a $724.2 million decrease in Federal funds purchased and a $346.8 million decrease in FHLB overnight repurchase agreements. Also contributing to the decrease was a $146.4 million decrease in short-term customer funding due to customers transferring funds from the cash management program to deposits due to the low interest rate environment. The $76.0 million decrease in long-term debt was due to maturities of FHLB advances.

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Provision for Loan Losses and Allowance for Credit Losses

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

	Nine months ended September 30	
	2009	2008
	(dollars in thousands)	
Loans, net of unearned income outstanding at end of period	**$ 11,968,246**	$ 11,823,529
Daily average balance of loans, net of unearned income	**$ 11,971,378**	$ 11,472,748
Balance of allowance for credit losses at beginning of period	**$ 180,137**	$ 112,209
Loans charged off:		
Real estate construction	**32,892**	3,014
Commercial industrial, agricultural and financial	**24,683**	12,200
Real estate commercial mortgage	**13,475**	2,828
Real estate residential mortgage and home equity	**4,832**	2,969
Consumer	**7,667**	3,738
Leasing and other	**4,682**	3,771
Total loans charged off	**88,231**	28,520
Recoveries of loans previously charged off:		
Real estate construction	**352**	17
Commercial industrial, agricultural and financial	**1,654**	1,025
Real estate commercial mortgage	**528**	230
Real estate residential mortgage and home equity	**149**	138
Consumer	**1,294**	1,022
Leasing and other	**838**	1,082
Total recoveries	**4,815**	3,514
Net loans charged off	**83,416**	25,006
Provision for loan losses	**145,000**	54,626
Balance of allowance for credit losses at end of period	**$ 241,721**	$ 141,829
Net charge-offs to average loans (annualized)	**0.93%**	0.29%

The provision for loan losses for the first nine months of 2009 totaled $145.0 million, an increase of $90.4 million, or 165.4%, from the first nine months of 2008. The significant increase in the provision for loan losses was related to the increase in non-performing loans and net charge-offs, which required additional allowance for credit loss balances to meet allocation needs.

The $58.4 million, or 233.6%, increase in net charge-offs for the first nine months of 2009 in comparison to the same period in 2008 was due to increases in construction loan net charge-offs ($29.5 million), commercial loan net charge-offs ($11.9 million) and commercial mortgage net charge-offs ($10.3 million). During the first nine months of 2009, there were 17 charge-offs of $1.0 million or greater, with an aggregate amount of $35.5 million, of which

$28.1 million was for loans to customers whose businesses were negatively impacted by the downturn in residential real estate.

Other Income

The following table presents the components of other income:

	Nine months ended September 30		Increase (decrease)	
	2009	2008	**$**	**%**
	(dollars in thousands)			
Service charges on deposit accounts	**$ 45,276**	$ 45,463	$ (187)	(0.4%)
Other service charges and fees	**27,952**	27,320	632	2.3
Investment management and trust services	**23,970**	25,193	(1,223)	(4.9)
Gains on sales of mortgage loans	**18,764**	7,247	11,517	158.9
Credit card income	**4,071**	2,442	1,629	66.7
Gains on sales of OREO	**1,565**	579	986	170.3
Other	**8,922**	8,393	529	6.3
Total, excluding gain on sale of credit card portfolio and investment securities gains (losses)	**130,520**	116,637	13,883	11.9
Gain on sale of credit card portfolio		13,910	(13,910)	(100.0%)
Investment securities gains (losses)	**2,951**	(29,902)	32,853	N/M
Total	**$ 133,471**	$ 100,645	$ 32,826	32.6%

N/M Not meaningful

The $632,000, or 2.3%, increase in other service charges and fees was primarily due to a $722,000, or 9.8%, increase in debit card fees, due to increased transaction volumes, and a $778,000, or 18.1%, increase in letter of credit fees. These increases were offset by a $306,000 decrease in foreign currency processing revenue, a $211,000 decrease in merchant fees and an $186,000 decrease in automated teller machine fees.

The $1.2 million, or 4.9%, decrease in investment management and trust services income was due to a $2.6 million, or 13.3%, decrease in trust revenue, offset by a $1.3 million, or 21.6%, increase in brokerage revenue. The performance of equity markets negatively impacted both trust and brokerage revenues, however, brokerage revenue increased over the 2008 levels due to the Corporation s transition of its brokerage business from a transaction-based model to a relationship model during 2008.

Gains on sales of mortgage loans increased $11.5 million, or 158.9%, due to an increase in the volume of loans sold. Total loans sold in the first nine months of 2009 were $1.8 billion, compared to $499.9 million in the first nine months of 2008. The $1.3 billion, or 255.6%, increase in the volume of loans sold was mainly due to an increase in refinance activity, as mortgage rates dropped to historic lows. For the nine months ended September 30, 2009, 74% of loans originated for sale represented refinances, compared to 44% for the same period in 2008.

Credit card income includes fees earned for each new account opened and a percentage of revenue earned on both new accounts and accounts sold, under an agreement with the purchaser of the credit card portfolio. The increase was primarily due to nine months of income being earned in 2009 compared to less than six months of income earned during the first nine months of 2008, as the agreement was executed during the second quarter of 2008.

The $986,000, or 170.3%, increase in gains on sales of OREO was due to an increase in the number of sales during the first nine months of 2009 in comparison to the first nine months of 2008.

Investment securities gains of $3.0 million for the first nine months of 2009 included $12.2 million of net gains on the sales of securities, offset by $9.2 million of other-than-temporary impairment charges. During the first nine months of 2009, the Corporation recorded $6.5 million of other-than-temporary impairment

charges for pooled trust preferred securities issued by financial institutions and $2.6 million of other-than-temporary impairment charges related to financial institutions stocks. The $29.9 million of investment securities losses for the first nine months of 2008 was due primarily to $30.3 million of other-than-temporary impairment charges for financial institution stocks and $7.8 million of other-than-temporary impairment charges for debt securities issued by financial institutions, offset by $9.4 million of net gains on the sales of investment securities. See Note C, Investment Securities in the Notes to Consolidated Financial Statements for additional details.

Other Expenses

The following table presents the components of other expenses:

	Nine months ended September 30		Increase (decrease)	
	2009	2008	**$**	**%**
	(dollars in thousands)			
Salaries and employee benefits	**$ 165,189**	$ 164,786	$ 403	0.2%
Net occupancy expense	**31,428**	30,999	429	1.4
FDIC insurance expense	**21,738**	2,684	19,054	709.9
Equipment expense	**9,660**	9,907	(247)	(2.5)
Data processing	**9,100**	9,604	(504)	(5.2)
Professional fees	**6,702**	5,717	985	17.2
Operating risk loss	**6,683**	19,108	(12,425)	(65.0)
Telecommunications	**6,483**	5,960	523	8.8
Marketing	**6,277**	9,521	(3,244)	(34.1)
Intangible amortization	**4,326**	5,386	(1,060)	(19.7)
OREO expense	**4,278**	3,138	1,140	36.3
Supplies	**4,234**	4,303	(69)	(1.6)
Postage	**3,953**	4,218	(265)	(6.3)
Other	**33,937**	30,420	3,517	11.6
Total	**$ 313,988**	$ 305,751	$ 8,237	2.7%

Salaries and employee benefits increased $403,000, or 0.2%, with salaries decreasing $2.2 million, or 1.6%, offset by an increase in employee benefits of $2.6 million, or 9.1%. The decrease in salaries was primarily due to a $2.7 million decrease in bonus expense and a $304,000 decrease in stock-based compensation, offset by an increase in salaries due to the effect of normal merit increases. Merit increases were suspended as of March 2009. Average full-time equivalent employees decreased from 3,670 in the first nine months of 2008 to 3,610 in the first nine months of 2009. The $2.6 million increase in employee benefits was primarily due to a $2.0 million, or 13.3%, increase in healthcare costs as claims costs increased, a $1.4 million increase in defined benefit pension plan expense due to a lower return on plan assets and $808,000 in severance expense related to the consolidation of Columbia Bank s back office functions in the third quarter of 2009. These increases were offset by an $719,000 decrease in accruals for the cost of compensated absences and a $481,000 decrease in postretirement plan expense due to a reduction in benefits covered. The $19.1 million increase in FDIC insurance expense was due to a $7.7 million special assessment recorded in the second quarter of 2009, in addition to an increase in assessment rates, which were effective January 1, 2009. Gross FDIC insurance premiums for the first nine months of 2009, excluding the special assessment, were $14.0 million and were reduced by $114,000 of one-time credits. For the first nine months of 2008, gross FDIC insurance premiums were $5.0 million and were reduced by $2.3 million of one-time credits.

The $12.4 million decrease in operating risk loss was due to a $9.6 million reduction in charges related to the Corporation s commitment to purchase ARCs from customer accounts and a $2.6 million decrease in

losses on the actual and potential repurchase of residential mortgage and home equity loans. See Note H, Commitments and Contingencies in the Notes to Consolidated Financial Statements for additional details.

The $985,000 increase in professional fees was primarily due to increased legal costs associated with collection and workout efforts for non-performing loans. The $3.2 million decrease in marketing expenses was due to an effort to reduce discretionary spending and the timing of promotional campaigns. The $1.1 million decrease in intangible amortization was mainly due to a decrease in core deposit intangible asset amortization. The $1.1 million increase in OREO expense was mainly due to increases in carrying costs.

The $3.5 million increase in other expenses was due to the reversal of $1.4 million of litigation reserves in the first quarter of 2008 associated with the Corporation s share of indemnification liabilities with Visa, Inc. (Visa), which were no longer necessary as a result of Visa s initial public offering. Also contributing to the increase was $1.1 million of costs associated with the consolidation of Columbia Bank s back office functions in the third quarter of 2009 and an increase in loan collection and workout costs.

Income Taxes

Income tax expense for the first nine months of 2009 was $9.8 million, a $26.0 million, or 72.6%, decrease from $35.8 million in 2008. The decrease was primarily due to a decrease in income before income taxes.

The Corporation s effective tax rate was 16.5% in 2009, as compared to 27.1% in 2008. The effective rate is generally lower than the Federal statutory rate of 35% due to investments in tax-free municipal securities and Federal tax credits earned from investments in low and moderate-income housing partnerships. The effective rate for the first nine months of 2009 is lower than the same period in 2008 due to non-taxable income and tax credits having a larger impact on the effective rate due to the $72.7 million decrease in income before income taxes.

FINANCIAL CONDITION

Total assets of the Corporation increased $341.6 million, or 2.1%, to $16.5 billion at September 30, 2009, compared to $16.2 billion at December 31, 2008.

Cash and due from banks decreased $79.2 million, or 23.9%. Because of daily fluctuations that result in the normal course of business, cash is more appropriately analyzed in terms of average balances. On an average balance basis, cash and due from banks decreased $16.1 million, or 5.3%, from $290.0 million for the month of September 2009 to $306.1 million for the month of December 2008.

Investment securities increased $549.6 million, or 20.2%. During the first nine months of 2009, purchases of investments resulted from an increase in deposits combined with a decrease in loans, as well as the use of funds received from of the Corporation s issuance of preferred stock to the UST in December 2008. Also contributing to the increase in investments was the Corporation s purchase of $104.4 million of ARCs from customers during the first nine months of 2009.

The Corporation experienced a $74.4 million, or 0.6%, decrease in loans, net of unearned income. Construction loans decreased $240.3 million, or 18.9%, due to paydowns on existing loans, a significant slowdown in residential housing construction and $32.5 million of net charge-offs recorded in the first nine months of 2009. Home equity loans decreased $43.7 million, or 2.6%, and residential mortgages decreased $42.6 million, or 4.4%, both due to refinance activity generated by low interest rates. Offsetting these decreases was a $170.0 million, or 4.2%, increase in commercial mortgages and an $84.4 million, or 2.3%, increase in commercial loans.

Deposits increased $1.5 billion, or 14.0%, due to an increase in demand and savings deposits of $1.1 billion, or 20.8%, and an increase in time deposits of $347.2 million, or 6.8%. The increase in demand and savings accounts was in personal, business and governmental accounts. The growth in business accounts due, in part, to businesses being required to keep higher balances on hand to offset service fees, as well as a movement from the Corporation s cash management products due to the current low rates. The increase in municipal accounts reflected these same factors, along with the seasonal impact related to the tax collection process. The increase in time deposits was due to a $672.5 million, or 14.1%, increase in customer certificates of deposit, offset by a $325.3 million, or 95.0%, decrease in brokered certificates of deposit. The increase in customer certificates of deposit was due to active promotion during late 2008 and throughout the first quarter of 2009.

Short-term borrowings decreased $1.0 billion, or 59.0%, due to a $936.8 million, or 81.6%, decrease in Federal funds purchased and a $100.8 million, or 16.5%, decrease in short-term customer funding due to customers transferring funds from the cash management program to deposits due to the low interest rate environment. The decrease in short-term borrowings largely resulted from the increase in deposits. Long-term borrowings decreased $136.9 million, or 7.7%, due primarily to a $136.8 million, or 9.7%, decrease in FHLB advances.

Other liabilities decreased $22.5 million, or 13.3%, due to a $21.0 million decrease in dividends payable to common shareholders, as the quarterly dividend rate was reduced from $0.15 per share to $0.03 per share, and a $12.9 million reduction in financial guarantee liabilities related to commitments to purchase ARCs from customers. These decreases were offset by a $3.3 million increase in accrued FDIC insurance assessments and a $3.6 million increase in mortgage banking derivative liabilities.

Capital Resources

Total shareholders equity increased $64.1 million, or 3.4%, during the first nine months of 2009. The increase was due to $49.5 million of net income, a $38.4 million increase in net holding gains on investment securities and $5.9 million in stock issuances, offset by $27.9 million in dividends on common and preferred shares outstanding.

The Corporation and its subsidiary banks are subject to various regulatory capital requirements administered by banking regulators. Failure to meet minimum capital requirements can initiate certain actions by regulators that could have a material effect on the Corporation s consolidated financial statements. The regulations require that banks maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk weighted assets (as defined), and Tier I capital to average assets (as defined). As of September 30, 2009, the Corporation and each of its bank subsidiaries met the minimum requirements. In addition, each of the Corporation s bank subsidiaries capital ratios exceeded the amounts required to be considered well capitalized as defined in the regulations.

The following table summarizes the Corporation s capital ratios in comparison to regulatory requirements:

	September 30 2009	**December 31 2008**	**Regulatory Minimum Capital Adequacy**
Total Capital (to Risk Weighted Assets)	**14.4%**	14.3%	8.0%
Tier I Capital (to Risk Weighted Assets)	**11.6%**	11.5%	4.0%
Tier I Capital (to Average Assets)	**9.5%**	9.6%	3.0%

In connection with the Emergency Economic Stabilization Act of 2008 (EESA), the UST initiated a Capital Purchase Program (CPP) which allowed for qualifying financial institutions to issue preferred stock to the UST, subject to certain terms and conditions. The EESA was initially developed to attract broad participation by strong financial institutions, to stabilize the financial system and increase lending to benefit the national economy and citizens of the U.S.

In December 2008, the Corporation voluntarily participated in the CPP by issuing $376.5 million of fixed rate cumulative perpetual preferred stock, and warrants to purchase 5.5 million of the Corporation s common stock, to the UST. The preferred stock pays a compounding cumulative dividend at a rate of 5.0% for the first five years and 9.0% thereafter.

The $376.5 million par value of the preferred stock is included in regulatory capital. Pro-forma regulatory capital ratios, excluding this amount, at September 30, 2009 would be as follows:

Total Capital (to Risk Weighted Assets)	**11.5%**
Tier I Capital (to Risk Weighted Assets)	**8.7%**
Tier I Capital (to Average Assets)	**7.1%**

Liquidity

The Corporation must maintain a sufficient level of liquid assets to meet the cash needs of its customers, who, as depositors, may want to withdraw funds or who, as borrowers, need credit availability. Liquidity is provided on a continuous basis through scheduled and unscheduled principal and interest payments on outstanding loans and investments and through the availability of deposits and borrowings. The Corporation also maintains secondary sources that provide liquidity on a secured and unsecured basis to meet short-term needs. Liquidity must also be managed at the Fulton Financial Corporation parent company level. For safety and soundness reasons, banking regulations limit the amount of cash that can be transferred from subsidiary banks to the parent company in the form of loans and dividends. Generally, these limitations are based on the subsidiary banks regulatory capital levels and their net income. Management continues to monitor the liquidity and capital needs of the parent company and will implement appropriate strategies, as necessary, to remain adequately capitalized and to meet its cash needs.

The Corporation s sources and uses of cash were discussed in general terms in the net interest income section of Management s Discussion. The consolidated statements of cash flows provide additional information. The Corporation s operating activities during the first nine months of 2009 generated $206.4 million, mainly due to net income, as adjusted for non-cash expenses, most notably the provision for loan losses. Investing activities resulted in a net cash outflow of $546.3 million, due to purchases of available for sale securities exceeding the proceeds from the sales and maturities of available for sale securities. Cash flows provided by financing activities were $260.7 million, primarily due to net increases in deposits exceeding net decreases in short-term borrowings, dividend payments and long-term debt repayments.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Equity Market Price Risk

Equity market price risk is the risk that changes in the values of equity investments could have a material impact on the financial position or results of operations of the Corporation. The Corporation s equity investments consist of $34.4 million of stocks of publicly traded financial institutions, $85.7 million of FHLB and Federal Reserve Bank stock and $9.3 million of money market mutual funds and other equity investments. The equity investments most susceptible to equity market price risk are the financial institutions stocks, which had a cost basis of approximately $35.9 million and fair value of $34.4 million at September 30, 2009. Gross unrealized gains in this portfolio were $2.5 million and gross unrealized losses were $4.0 million.

Management continuously monitors the fair value of its equity investments and evaluates current market conditions and operating results of the issuers. Periodic sale and purchase decisions are made based on this monitoring process. None of the Corporation s equity securities are classified as trading. Future cash flows from these investments are not provided in the table on page 53 as such investments do not have maturity dates.

Although the carrying value of financial institution stocks accounted for 0.2% of the Corporation s total assets at September 30, 2009, the Corporation has a history of realizing gains from this portfolio. However, significant declines in the values of financial institutions stocks held in this portfolio have not only impacted the Corporation s ability to realize gains, but have also resulted in significant other-than-temporary impairment charges in 2008 and 2009.

The Corporation evaluated whether any unrealized losses on individual equity investments constituted other-than-temporary impairment, which would require a write-down through a charge to earnings. Based on the results of such evaluations, the Corporation recorded write-downs of $949,000 and $2.6 million for specific financial institutions stocks that were deemed to exhibit other-than-temporary impairment in value during the three and nine months ended September 30, 2009, respectively. Additional impairment charges may be necessary in the future depending upon the performance of the equity markets in general and the performance of the individual investments held by the Corporation. See Note C, Investment Securities in the Notes to Consolidated Financial Statements for additional details.

In addition to the Corporation s investment portfolio, its investment management and trust services income has been impacted by fluctuations in the securities markets. A portion of this revenue is based on the value of the underlying investment portfolios. As the values of those investment portfolios decrease, the Corporation s revenue has been negatively impacted. The Corporation s ability to sell its brokerage services in the future will be dependent, in part, upon consumers level of confidence in the outlook for rising securities prices.

Debt Security Market Price Risk

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

securities, auction rate certificates and corporate debt securities. The Corporation s investments in auction rate certificates and corporate debt securities are susceptible to market price risk.

Auction Rate Certificates (ARCs)

The Corporation s debt securities include ARCs purchased from customers. At September 30, 2009, ARCs held by the Corporation had a cost basis of $292.3 million and fair value of $285.6 million, or 1.7% of total assets.

ARCs are long-term securities structured to allow their sale in periodic auctions, resulting in the treatment of ARCs as short-term instruments in normal market conditions. However, beginning in mid-February 2008, market auctions for these securities began to fail due to an insufficient number of buyers, resulting in an illiquid market. This illiquidity has resulted in recent market prices that represent forced liquidations or distressed sales and do not provide an accurate basis for fair value. Therefore, at September 30, 2009, the fair value of the ARCs held by the Corporation were derived using significant unobservable inputs based on an expected cash flow model which produced fair values that were materially different from those that would be expected from settlement of these investments in the illiquid market that presently exists. The expected cash flow model produced fair values which assumed a return to market liquidity sometime within the next three to five years. If liquidity does not return within a time frame that is materially consistent with the Corporation s assumptions, the fair value of ARCs could significantly change.

The credit quality of the underlying debt associated with ARCs is also a factor in the determination of their estimated fair values. As of September 30, 2009, approximately $247 million, or 86%, of the auction rate securities held by the Corporation were rated above investment grade, with approximately $184 million, or 64%, AAA rated by at least one ratings agency. Approximately $39 million, or 14%, of auction rate securities are rated below investment grade by at least one ratings agency. Of the $39 million of securities rated below investment grade, approximately $22 million, or 57%, of the student loans underlying the auction rate securities have principal payments which are guaranteed by the Federal government. In total, approximately $254 million, or 89%, of the student loans underlying the auction rate securities have principal payments which are guaranteed by the Federal government. All auction rate securities held by the Corporation were current and making scheduled interest payments. Therefore, as of September 30, 2009, the risk of changes in the estimated fair values of ARCs due to deterioration in the credit quality of their underlying debt instruments is not significant.

Corporate Debt Securities

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

	September 30, 2009	
	Amortized cost	Estimated fair value
	(in thousands)	
Single-issuer trust preferred securities (1)	$ 97,925	$ 75,195
Subordinated debt	34,861	32,589
Pooled trust preferred securities	22,518	4,846
Total corporate debt securities issued by financial institutions	$ 155,304	$ 112,630

(1) Single-issuer trust preferred securities with estimated fair values totaling $8.1 million as of

September 30, 2009 are classified as Level 3 assets. See Note J, Fair Value Measurements in the Notes to Consolidated Financial Statements for additional details.

Historically, the Corporation determined the fair value of these securities based on prices received from third-party brokers and pricing agencies who determined fair values using both quoted prices for similar assets,

when available, 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.

Due to distressed market prices that currently exist for these securities, the Corporation determined that the market for pooled trust preferred securities and certain single-issuer trust preferred securities held by the Corporation was not active. The Corporation determined the fair value of its investments in pooled trust preferred securities and for certain single-issuer trust preferred securities based on quotes provided by third-party brokers who determined fair values based predominantly on internal valuation models and were not indicative prices or binding offers.

In April 2009, the Financial Accounting Standards Board (FASB) issued Staff Position No. 115-2 and 124-2, Recognition and Presentation of Other-than-Temporary Impairments (FSP FAS 115-2). FSP FAS 115-2, codified as FASB Accounting Standards Codification (ASC) paragraph 320-10-65-1, amends other-than-temporary impairment guidance for debt securities and expands disclosure requirements for other-than-temporarily impaired debt and equity securities. See Note C, Investment Securities in the Notes to Consolidated Financial Statements for additional details.

During the three and nine months ended September 30, 2009, the Corporation recorded $1.8 million and $6.5 million, respectively, of other-than-temporary impairment charges as reductions to investment securities gains on the consolidated statements of income, related to investments in pooled trust preferred securities issued by financial institutions. These other-than-temporary impairment charges were based on the credit losses determined through present value modeling of expected cash flows. In addition, during the first nine months of 2009, the Corporation recorded $6.0 million ($3.9 million, net of tax) of non-credit related write-downs to fair value as a component of other comprehensive loss.

During 2008, the Corporation recorded other-than-temporary impairment charges for pooled trust preferred securities of $15.8 million. Upon adoption of FSP FAS 115-2, the Corporation determined that $9.7 million of those other-than-temporary impairment charges were non-credit related. As such, a $6.3 million (net of $3.4 million of taxes) increase to retained earnings and a corresponding decrease to accumulated other comprehensive income was recorded as the cumulative effect of adopting FSP FAS 115-2 as of January 1, 2009. Because previously recognized other-than-temporary impairment charges were reversed through equity rather than earnings, $6.1 million of the $6.5 million other-than-temporary impairment charges for certain pooled trust preferred securities recorded during the first nine months of 2009 were also presented as other-than-temporary impairment charges on the Corporation s statements of operations for the year ended December 31, 2008.

Additional impairment charges for debt securities may be necessary in the future depending upon the performance of the individual investments held by the Corporation.

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

Interest Rate Risk

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

The Corporation employs various management techniques to minimize its exposure to interest rate risk. An Asset/Liability Management Committee (ALCO), consisting of key financial and senior management personnel, meets on a periodic basis. The ALCO is responsible for reviewing the interest rate sensitivity

position of the Corporation, approving asset and liability management policies, and overseeing the formulation and implementation of strategies regarding balance sheet positions and earnings.

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

	Expected Maturity Period							Estim
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Beyond**	**Total**	**Fair**
ate loans (1)	$1,097,557	$ 537,977	$ 420,095	$ 357,031	$ 278,242	$ 608,693	$ 3,299,595	$ 3,30
e rate	4.85%	6.54%	6.55%	6.39%	6.44%	6.22%	5.89%	
g rate loans (1) (2)	2,263,079	1,133,438	864,745	747,904	1,694,650	1,955,363	8,659,179	8,31
e rate	4.88%	5.12%	5.18%	5.04%	4.40%	5.68%	5.04%	
ate investments (3)	689,372	468,281	396,795	267,498	203,115	701,852	2,726,913	2,79
e rate	4.36%	4.69%	4.73%	4.78%	4.56%	4.25%	4.50%	
g rate investments (3)		500	292,256	116		88,176	381,048	34
e rate		5.62%	2.69%	1.18%		3.03%	2.77%	
nterest-earning assets	105,807						105,807	10
e rate	3.33%						3.33%	
	$4,155,815	$2,140,196	$1,973,891	$1,372,549	$2,176,007	$3,354,084	$15,172,542	$14,88
e rate	4.75%	5.38%	5.01%	5.34%	4.68%	5.41%	5.06%	
ate deposits (4)	$4,117,008	$ 837,402	$ 238,995	$ 154,506	$ 50,015	$ 9,803	$ 5,407,729	$ 5,43
e rate	2.25%	2.70%	3.25%	4.18%	3.22%	3.49%	2.43%	
g rate deposits (5)	2,174,808	199,106	196,958	186,133	153,944	1,781,620	4,692,569	4,69
e rate	0.89%	0.68%	0.68%	0.64%	0.50%	0.46%	0.68%	
ate borrowings (6)	497,546	179,823	102,775	5,815	5,794	838,808	1,630,561	1,60
e rate	4.88%	3.74%	4.01%	2.89%	5.52%	4.96%	4.74%	
g rate borrowings (7)	722,927					20,000	742,927	72
e rate	0.36%					2.69%	0.43%	
	$7,512,289	$1,216,331	$ 538,728	$ 346,454	$ 209,753	$2,650,231	$12,473,786	$12,46
e rate	1.85%	2.52%	2.46%	2.26%	1.29%	1.91%	1.95%	

(1) Amounts are based on contractual payments and maturities, adjusted for expected prepayments. Excludes overdraft deposit

balances.

(2) Line of credit amounts are based on historical cash flow assumptions, with an average life of approximately 5 years.

(3) Amounts are based on contractual maturities; adjusted for expected prepayments on mortgage-backed securities, collateralized mortgage obligations and expected calls on agency and municipal securities.

(4) Amounts are based on contractual maturities of time deposits.

(5) Estimated based on history of deposit flows.

(6) Amounts are based on contractual maturities of debt instruments, adjusted for possible calls. Amounts also include junior subordinated deferrable interest debentures.

(7) Amounts include Federal Funds purchased, short-term promissory notes and securities sold under agreements to repurchase, which mature in less than 90 days, in addition to junior subordinated deferrable interest debentures.

The preceding table and discussion addressed the liquidity implications of interest rate risk and focused on expected cash flows from financial instruments. The periods of these expected principal cash flows, however, are not necessarily consistent with the periods that would realize the net interest income impact of interest rate changes. Certain financial instruments, such as adjustable rate loans, have repricing periods that differ from expected cash flows periods.

Included within the $8.7 billion of floating rate loans above are $3.6 billion of loans, or 41.4% of the total, that float with the prime interest rate, $1.2 billion, or 13.4%, of loans which float with other interest rates, primarily LIBOR, and $3.9 billion, or 45.2%, of adjustable rate loans. The $3.9 billion of adjustable rate loans include loans that are fixed rate instruments for a certain period of time, and then convert to floating rates.

The following table presents the percentage of adjustable rate loans, stratified by their remaining fixed term at September 30, 2009:

Fixed Rate Term	Percent of Total Adjustable Rate Loans
One year	18.3%
Two years	1.0
Three years	1.8
Four years	1.4
Five years	59.6
Greater than five years	17.9

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

Static gap provides a measurement of repricing risk in the Corporation s balance sheet as of a point in time. This measurement is accomplished through stratification of the Corporation s assets and liabilities into repricing periods. The sum of assets and liabilities in each of these periods are compared for mismatches within that maturity segment. Core deposits having no contractual maturities are placed into repricing periods based upon historical balance performance. Repricing for mortgage loans, mortgage-backed securities and collateralized mortgage obligations includes the effect of expected cash flows. Estimated prepayment effects are applied to these balances based upon industry projections for prepayment speeds. The Corporation s policy limits the cumulative six-month ratio of rate sensitive assets to rate sensitive liabilities (RSA/RSL) to a range of 0.85 to 1.15. As of September 30, 2009, the cumulative six-month ratio of RSA/RSL was 1.11.

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

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

Rate Shock	**Annual change in net interest income**	**% Change**
+300 bp	+ $63.5 million	+11.5%
+200 bp	+ $38.7 million	+ 7.0%
+100 bp	+ $17.5 million	+ 3.2%
- 100 bp (1)	- $ 6.6 million	- 1.2%

(1)

Because certain current short-term interest rates are at or below 1.00%, the 100 basis point downward shock assumes that corresponding short-term interest rates approach an implied floor that, in effect, reflects a decrease of less than the full 100 basis points downward shock.

Economic value of equity estimates the discounted present value of asset cash flows and liability cash flows. Discount rates are based upon market prices for like assets and liabilities. Upward and downward shocks of interest rates are used to determine the comparative effect of such interest rate movements relative to the unchanged environment. This measurement tool is used primarily to evaluate the longer-term repricing risks and options in the Corporation s balance sheet. A policy limit of 10% of economic equity may be at risk for every 100 basis point shock movement in interest rates. As of September 30, 2009, the Corporation was within policy limits for every 100 basis point shock movement in interest rates.

Item 4. Controls and Procedures

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

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

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Not applicable.

Item 1A. Risk Factors

There were no material changes from the risk factors set forth under Part I, Item 1A. Risk Factors on the Corporation s Form 10-K for the year ended December 31, 2008.

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

Not applicable.

Item 3. Defaults Upon Senior Securities and Use of Proceeds

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

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

FULTON FINANCIAL CORPORATION AND SUBSIDIARIES
SIGNATURES

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

FULTON FINANCIAL CORPORATION

Date: November 9, 2009	/s/ R. Scott Smith, Jr. R. Scott Smith, Jr. Chairman and Chief Executive Officer
Date: November 9, 2009	/s/ Charles J. Nugent Charles J. Nugent Senior Executive Vice President and Chief Financial Officer

EXHIBIT INDEX
Exhibits Required Pursuant
to Item 601 of Regulation S-K

3.1	Articles of Incorporation, as amended and restated, of Fulton Financial Corporation as amended Incorporated by reference to Exhibit 3.1 of the Fulton Financial Corporation Form S-4 Registration Statement filed on October 7, 2005.
3.2	Bylaws of Fulton Financial Corporation as amended Incorporated by reference to Exhibit 3.1 of the Fulton Financial Corporation Current Report on Form 8-K dated September 18, 2008.
3.3	Certificate of Designations of Fixed Rate Cumulative Preferred Stock, Series A of Fulton Financial Corporation Incorporated by reference to Exhibit 3.1 of the Fulton Financial Corporation Current Report on Form 8-K dated December 23, 2008.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.