FULTON FINANCIAL CORP
Form 10-Q
May 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20459

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011, or

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

For the transition period from ______ to ______

Commission File No. 0-10587

FULTON FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

(717) 291-2411

(Registrant s telephone number, including area code)

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock, $2.50 Par Value 199,263,000 shares outstanding as of April 29, 2011.

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FULTON FINANCIAL CORPORATION

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

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Item 1. Financial Statements

FULTON FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(in thousands, except per-share data)

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

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

See Notes to Consolidated Financial Statements

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FULTON FINANCIAL CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per-share data)

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

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

See Notes to Consolidated Financial Statements

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FULTON FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY AND COMPREHENSIVE INCOME (UNAUDITED)

THREE MONTHS ENDED MARCH 31, 2011 AND 2010

	Preferred Stock	Common Stock Shares Outstanding	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
				(in thousands)				
Balance at December 31, 2010	**$ 0**	**199,050**	**$ 538,492**	**$ 1,420,127**	**$ 158,453**	**$ 12,495**	**$ (249,178)**	**$ 1,880,389**
Comprehensive income:								
Net income					**33,785**			**33,785**
Other comprehensive income						**2,354**		**2,354**
Total comprehensive income								**36,139**
Stock issued, including related tax benefits		**141**	**177**	**(8)**			**1,062**	**1,231**
Stock-based compensation awards				**547**				**547**
Common stock cash dividends - $0.04 per share					**(7,984)**			**(7,984)**
Balance at March 31, 2011	**$ 0**	**199,191**	**$ 538,669**	**$ 1,420,666**	**$ 184,254**	**$ 14,849**	**$ (248,116)**	**$ 1,910,322**
Balance at December 31, 2009	$ 370,290	176,364	$ 482,491	$ 1,257,730	$ 71,999	$ 7,458	$ (253,486)	$ 1,936,482
Comprehensive income:								
Net income					27,480			27,480
Other comprehensive income						14,334		14,334
Total comprehensive income								41,814
Stock issued, including related tax benefits		145	185	(148)			1,212	1,249
Stock-based compensation awards				293				293
Preferred stock discount accretion	359				(359)			0
Preferred stock cash dividends					(4,706)			(4,706)
Common stock cash dividends - $0.03 per share					(5,294)			(5,294)
Balance at March 31, 2010	$ 370,649	176,509	$ 482,676	$ 1,257,875	$ 89,120	$ 21,792	$ (252,274)	$ 1,969,838

See Notes to Consolidated Financial Statements

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FULTON FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

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

Cash and Due From Banks at End of Period	**$ 265,353**	$ 276,200
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for:		
Interest	**$ 35,072**	$ 49,428
Income taxes	**145**	37

See Notes to Consolidated Financial Statements

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FULTON FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A Basis of Presentation

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

NOTE B Net Income Per Common Share and Other Comprehensive Income

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

For diluted net income per common share, net income available to common shareholders is divided by the weighted average number of common shares outstanding plus the incremental number of shares added as a result of converting common stock equivalents, calculated using the treasury stock method. The Corporation s common stock equivalents consist of outstanding stock options, restricted stock and common stock warrants. As of March 31, 2011, there were no outstanding common stock warrants.

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

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

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

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The following table presents the components of other comprehensive income:

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

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

NOTE C Investment Securities

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

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

	$ 2,655,785	**$ 65,536**	**$ (31,180)**	**$ 2,690,141**

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

Available for sale equity securities include restricted investment securities issued by the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank totaling $92.6 million and $96.4 million as of March 31, 2011 and December 31, 2010, respectively.

The amortized cost and estimated fair values of debt securities as of March 31, 2011, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held to Maturity		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
		(in thousands)		
Due in one year or less	$ 6,416	$ 6,416	$ 77,576	$ 77,478
Due from one year to five years	179	179	58,758	61,101
Due from five years to ten years	0	0	139,597	142,771
Due after ten years	0	0	490,615	473,403
	6,595	6,595	766,546	754,753
Collateralized mortgage obligations	0	0	957,520	973,328
Mortgage-backed securities	698	752	800,832	827,391
	$ 7,293	$ 7,347	$ 2,524,898	$ 2,555,472

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

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

The $297,000 and $824,000 of other-than-temporary impairment charges for equity securities during the three months ended March 31, 2011 and 2010, respectively, were for investments in stocks of financial institutions. Other-than-temporary impairment charges related to financial institution stocks were due to the severity and duration of the declines in fair values of certain bank stock holdings, in conjunction with management s assessment of the near-term prospects of each specific issuer. As of March 31, 2011, after other-than-temporary impairment charges, the financial institutions stock portfolio had a cost basis of $31.3 million and a fair value of $35.1 million.

The $994,000 and $4.2 million of credit related other-than-temporary impairment charges for debt securities during the three months ended March 31, 2011 and 2010, respectively, were for investments in pooled trust preferred securities issued by financial institutions. Other-than-temporary impairment charges related to pooled trust preferred securities were determined based on an expected cash flows model.

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

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

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The following table presents the gross unrealized losses and estimated fair values of investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2011:

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

For its investments in equity securities, most notably its investments in stocks of financial institutions, management evaluates the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on that evaluation and the Corporation s ability and intent to hold those investments for a reasonable period of time sufficient for a recovery of fair value, the Corporation does not consider those investments with unrealized holding losses as of March 31, 2011 to be other-than-temporarily impaired.

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

As of March 31, 2011, approximately $206 million, or 81%, of the ARCs were rated above investment grade, with approximately $156 million, or 61%, AAA rated. Approximately $50 million, or 20%, of ARCs were rated below investment grade by at least one ratings agency or not rated. Of this amount, approximately $30 million, or 59%, of the student loans underlying the ARCs have principal payments which are guaranteed by the Federal government. In total, approximately $226 million, or 88%, of the student loans underlying the ARCs have principal payments which are guaranteed by the Federal government. As of March 31, 2011, all ARCs were current and making scheduled interest payments. Because the Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, the Corporation does not consider these investments to be other-than-temporarily impaired as of March 31, 2011.

The Corporation s collateralized mortgage obligations and mortgage-backed securities have contractual terms that generally do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the decline in market value of these securities is attributable to changes in interest rates and not credit quality, and because the Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, the Corporation does not consider those investments to be other-than-temporarily impaired as of March 31, 2011.

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

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

The Corporation s investments in single-issuer trust preferred securities had an unrealized loss of $6.3 million at March 31, 2011. The Corporation did not record any other-than-temporary impairment charges for single-issuer trust preferred securities during the three months ended March 31, 2011 or 2010, respectively. The Corporation held 13 single-issuer trust preferred securities that were rated below investment grade by at least one ratings agency, with an amortized cost of $40.1 million and an estimated fair value of $39.7 million at March 31, 2011. The majority of the single-issuer trust preferred securities rated below investment grade were rated BB or Baa. Single-issuer trust preferred securities with an amortized cost of $10.3 million and an estimated fair value of $8.1 million at March 31, 2011, were not rated by any ratings agency.

The Corporation holds ten pooled trust preferred securities. As of March 31, 2011, nine of these securities, with an amortized cost of $6.4 million and an estimated fair value of $4.1 million, were rated below investment grade by at least one ratings agency, with ratings ranging from C to Ca. For each of the nine pooled trust preferred securities rated below investment grade, the class of securities held by the Corporation is below the most senior tranche, with the Corporation s interests being subordinate to other investors in the pool. The Corporation determines the fair value of pooled trust preferred securities based on quotes provided by third-party brokers.

The amortized cost of pooled trust preferred securities is the purchase price of the securities, net of cumulative credit related other-than-temporary impairment charges, determined using an expected cash flows model. The most significant input to the expected cash flows model was the expected payment deferral rate for each pooled trust preferred security. The Corporation evaluates the financial metrics, such as capital ratios and non-performing asset ratios, of the individual financial institution issuers that comprise each pooled trust preferred security to estimate its expected deferral rate. The actual weighted average cumulative defaults and deferrals as a percentage of original collateral were approximately 39% as of March 31, 2011. The discounted cash flow modeling for pooled trust preferred securities held by the Corporation as of March 31, 2011 assumed, on average, an additional 16% expected deferral rate.

Based on management s evaluations, corporate debt securities with a fair value of $129.1 million were not subject to any additional other-than-temporary impairment charges as of March 31, 2011. The Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, which may be maturity.

NOTE D Loans and Allowance for Credit Losses

Loans, net of unearned income

Loans, net of unearned income are summarized as follows:

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

Allowance for Credit Losses

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

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

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

	March 31, 2011	December 31, 2010
	(in thousands)	
Allowance for loan losses	**$ 270,272**	$ 274,271
Reserve for unfunded lending commitments	**884**	1,227
Allowance for credit losses	**$ 271,156**	$ 275,498

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

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

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

	Real Estate - Commercial Mortgage	Commercial - Industrial, Financial and Agricultural	Real Estate - Home Equity	Real Estate - Residential Mortgage	Real Estate - Construction	Consumer	Leasing and other and Overdrafts	Unallocated (1)	Total
					(in thousands)				
Balance at January 1, 2011	**$ 40,831**	**$ 101,436**	**$ 6,454**	**$ 17,425**	**$ 58,117**	**$ 4,669**	**$ 3,840**	**$ 41,499**	**$ 274,271**
Loans charged off	**(10,047)**	**(13,336)**	**(1,468)**	**(4,996)**	**(13,894)**	**(1,291)**	**(497)**	**0**	**(45,529)**
Recoveries of loans previously charged off	**1,535**	**391**	**1**	**44**	**563**	**309**	**344**	**0**	**3,187**
Net loans charged off	**(8,512)**	**(12,945)**	**(1,467)**	**(4,952)**	**(13,331)**	**(982)**	**(153)**	**0**	**(42,342)**
Provision for loan losses (2)	**16,239**	**11,689**	**669**	**7,102**	**10,705**	**1,049**	**(1,111)**	**(7,999)**	**38,343**
Balance at March 31, 2011	**$ 48,558**	**$ 100,180**	**$ 5,656**	**$ 19,575**	**$ 55,491**	**$ 4,736**	**$ 2,576**	**$ 33,500**	**$ 270,272**
Allowance for loan losses at March 31, 2011:									
Evaluated collectively for impairment under FASB ASC Subtopic 450-20	**$ 26,327**	**$ 36,709**	**$ 5,656**	**$ 15,288**	**$ 39,448**	**$ 4,736**	**$ 2,576**	**$ 33,500**	**$ 164,240**
Evaluated individually for impairment under FASB ASC Section 310-10-35	**22,231**	**63,471**	**0**	**4,287**	**16,043**	**0**	**0**	**NA**	**106,032**
	$ 48,558	**$ 100,180**	**$ 5,656**	**$ 19,575**	**$ 55,491**	**$ 4,736**	**$ 2,576**	**$ 33,500**	**$ 270,272**
Loans, net of unearned income at March 31, 2011:									
Evaluated collectively for impairment under FASB ASC Subtopic 450-20	**$ 4,224,868**	**$ 3,472,225**	**$ 1,620,340**	**$ 1,003,323**	**$ 629,359**	**$ 337,413**	**$ 60,051**	**NA**	**$ 11,347,579**
Evaluated individually for impairment under FASB ASC Section 310-10-35	**167,811**	**220,443**	**0**	**18,928**	**118,447**	**0**	**0**	**NA**	**525,629**
Total	**$ 4,392,679**	**$ 3,692,668**	**$ 1,620,340**	**$ 1,022,251**	**$ 747,806**	**$ 337,413**	**$ 60,051**	**NA**	**$ 11,873,208**

Allowance for loan losses at December 31, 2010:									
Evaluated collectively for impairment under FASB ASC Subtopic 450-20	$ 22,836	$ 32,323	$ 6,454	$ 11,475	$ 35,247	$ 4,669	$ 3,840	$ 41,499	$ 158,343
Evaluated individually for impairment under FASB ASC Section 310-10-35	17,995	69,113	0	5,950	22,870	0	0	NA	115,928
	$ 40,831	$ 101,436	$ 6,454	$ 17,425	$ 58,117	$ 4,669	$ 3,840	$ 41,499	$ 274,271
Loans, net of unearned income at December 31, 2010:									
Evaluated collectively for impairment under FASB ASC Subtopic 450-20	$ 4,217,660	$ 3,469,775	$ 1,641,777	$ 956,260	$ 660,238	$ 350,161	$ 63,830	NA	$ 11,359,701
Evaluated individually for impairment under FASB ASC Section 310-10-35	158,320	234,609	0	39,730	140,947	0	0	NA	573,606
Total	$ 4,375,980	$ 3,704,384	$ 1,641,777	$ 995,990	$ 801,185	$ 350,161	$ 63,830	NA	$ 11,933,307

(1) The Corporation maintains an unallocated allowance for factors or conditions that exist at the balance sheet date, but are not specifically identifiable. Management believes such an unallocated allowance, which was approximately 12% and 15% as of March 31, 2011 and December 31, 2010, respectively, was reasonable and appropriate as the estimates used in the allocation process are inherently imprecise.

(2) Provision for loan losses is gross of a $343,000 reduction in provision applied to unfunded commitments. The total provision for credit losses, comprised of allocations for both funded and unfunded loans, was $38.0 million at March 31, 2011.

N/A Not applicable

Impaired Loans

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

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

An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. As of March 31, 2011 and December 31, 2010, substantially all of the Corporation s impaired loans were measured based on the estimated fair value of each loan s collateral. Collateral could be in the form of real estate in the case of impaired commercial mortgages and construction loans, or business assets, such as accounts receivable or inventory, in the case of commercial loans. Commercial loans may also be secured by real property.

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

The following table presents total impaired loans by class segment:

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

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

N/A Not applicable.

As of March 31, 2011 and December 31, 2010 there were $121.0 million and $138.3 million, respectively, of impaired loans that did not have a related allowance for loan loss. The estimated fair values of the collateral for these loans exceeded the carrying amount of the loans and, accordingly, no specific valuation allowance was considered to be necessary.

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

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Credit Quality Indicators and Non-performing Assets

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

	March 31, 2011			
	Performing	Delinquent (1)	Non-performing (2)	Total
	(in thousands)			
Real estate - commercial mortgage	**$ 4,266,531**	**$ 28,843**	**$ 97,305**	**$ 4,392,679**
Commercial - secured	**3,366,849**	**17,496**	**82,426**	**3,466,771**
Commercial -unsecured	**221,243**	**1,030**	**3,624**	**225,897**
Total Commercial - industrial, financial and agricultural	**3,588,092**	**18,526**	**86,050**	**3,692,668**
Real estate - home equity	**1,599,010**	**12,016**	**9,314**	**1,620,340**
Real estate - residential mortgage	**936,767**	**35,486**	**49,998**	**1,022,251**
Construction - commercial residential	**413,497**	**3,467**	**66,686**	**483,650**
Construction - commercial	**206,630**	**83**	**4,040**	**210,753**
Construction - other	**50,613**	**636**	**2,154**	**53,403**
Total Real estate - construction	**670,740**	**4,186**	**72,880**	**747,806**
Consumer - direct	**35,967**	**2,658**	**2,075**	**40,700**
Consumer - indirect	**165,265**	**1,573**	**159**	**166,997**
Consumer - other	**129,544**	**148**	**24**	**129,716**
Total Consumer	**330,776**	**4,379**	**2,258**	**337,413**
Leasing and other and overdrafts	**59,208**	**610**	**233**	**60,051**
	$ 11,451,124	**$ 104,046**	**$ 318,038**	**$ 11,873,208**
	December 31, 2010			
Real estate - commercial mortgage	$ 4,257,871	$ 24,389	$ 93,720	$ 4,375,980
Commercial - secured	3,373,651	12,111	85,536	3,471,298
Commercial -unsecured	229,985	1,182	1,919	233,086
Total Commercial - industrial, financial and agricultural	3,603,636	13,293	87,455	3,704,384
Real estate - home equity	1,619,684	11,905	10,188	1,641,777
Real estate - residential mortgage	909,247	36,331	50,412	995,990
Construction - commercial residential	409,190	7,273	76,436	492,899
Construction - commercial	239,150	0	5,287	244,437
Construction - other	60,956	0	2,893	63,849
Total Real estate - construction	709,296	7,273	84,616	801,185
Consumer - direct	45,942	935	212	47,089
Consumer - indirect	166,531	2,275	290	169,096
Consumer - other	129,911	2,413	1,652	133,976
Total Consumer	342,384	5,623	2,154	350,161
Leasing and other and overdrafts	63,087	516	227	63,830
	$ 11,505,205	$ 99,330	$ 328,772	$ 11,933,307

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

The following table presents non-performing assets:

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

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

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

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

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

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

	March 31, 2011							
	31-59 Days Past Due	60-89 Days Past Due	³ 90 Days Past Due and Accruing	Non-accrual	Total ³ 90 Days (in thousands)	Total Past Due	Current	Total
Real estate - commercial mortgage	**$ 19,307**	**$ 9,536**	**$ 3,678**	**$ 93,627**	**$ 97,305**	**$ 126,148**	**$ 4,266,531**	**$ 4,392,679**
Commercial - secured	**13,071**	**4,425**	**6,771**	**75,655**	**82,426**	**99,922**	**3,366,849**	**3,466,771**
Commercial - unsecured	**839**	**191**	**159**	**3,465**	**3,624**	**4,654**	**221,243**	**225,897**
Total Commercial - industrial, financial and agricultural	**13,910**	**4,616**	**6,930**	**79,120**	**86,050**	**104,576**	**3,588,092**	**3,692,668**
Real estate - home equity	**9,326**	**2,690**	**9,240**	**74**	**9,314**	**21,330**	**1,599,010**	**1,620,340**
Real estate - residential mortgage	**26,604**	**8,882**	**13,133**	**36,865**	**49,998**	**85,484**	**936,767**	**1,022,251**
Construction - commercial residential	**3,028**	**439**	**1,480**	**65,206**	**66,686**	**70,153**	**413,497**	**483,650**
Construction - commercial	**0**	**83**	**0**	**4,040**	**4,040**	**4,123**	**206,630**	**210,753**
Construction - other	**248**	**388**	**894**	**1,260**	**2,154**	**2,790**	**50,613**	**53,403**
Total Real estate - construction	**3,276**	**910**	**2,374**	**70,506**	**72,880**	**77,066**	**670,740**	**747,806**
Consumer - direct	**1,920**	**738**	**2,060**	**15**	**2,075**	**4,733**	**35,967**	**40,700**
Consumer - indirect	**1,307**	**266**	**159**	**0**	**159**	**1,732**	**165,265**	**166,997**
Consumer - other	**41**	**107**	**24**	**0**	**24**	**172**	**129,544**	**129,716**
Total Consumer	**3,268**	**1,111**	**2,243**	**15**	**2,258**	**6,637**	**330,776**	**337,413**
Leasing and other and overdrafts	**355**	**255**	**170**	**63**	**233**	**843**	**59,208**	**60,051**
	$ 76,046	**$ 28,000**	**$ 37,768**	**$ 280,270**	**$ 318,038**	**$ 422,084**	**$ 11,451,124**	**$ 11,873,208**
	December 31, 2010							
Real estate - commercial mortgage	$ 15,898	$ 8,491	$ 6,744	$ 86,976	$ 93,720	$ 118,109	$ 4,257,871	$ 4,375,980
Commercial - secured	5,274	6,837	13,374	72,162	85,536	97,647	3,373,651	3,471,298
Commercial - unsecured	629	553	731	1,188	1,919	3,101	229,985	233,086
Total Commercial - industrial, financial and agricultural	5,903	7,390	14,105	73,350	87,455	100,748	3,603,636	3,704,384
Real estate - home equity	8,138	3,767	10,024	164	10,188	22,093	1,619,684	1,641,777
Real estate - residential mortgage	24,237	12,094	13,346	37,066	50,412	86,743	909,247	995,990
Construction - commercial residential	3,872	3,401	884	75,552	76,436	83,709	409,190	492,899
Construction - commercial	0	0	195	5,092	5,287	5,287	239,150	244,437
Construction - other	0	0	491	2,402	2,893	2,893	60,956	63,849
Total Real estate - construction	3,872	3,401	1,570	83,046	84,616	91,889	709,296	801,185
Consumer - direct	707	228	212	0	212	1,147	45,942	47,089
Consumer - indirect	1,916	359	290	0	290	2,565	166,531	169,096
Consumer - other	1,751	662	1,638	14	1,652	4,065	129,911	133,976

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

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NOTE E Stock-Based Compensation

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

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

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

Stock option exercise prices are equal to the fair value of the Corporation s stock on the date of grant, and carry terms of up to ten years. Restricted stock fair values are equal to the average trading price of the Corporation s stock on the date of grant. Restricted stock awards earn dividends during the vesting period, which are forfeitable if the awards do not vest. Stock options and restricted stock are typically granted annually on July 1st and become fully vested over or after a three-year vesting period. Certain events, as defined in the Option Plan, result in the acceleration of the vesting of both stock options and restricted stock. As of March 31, 2011, the Option Plan had 13.0 million shares reserved for future grants through 2013.

NOTE F Employee Benefit Plans

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

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

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

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

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

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

NOTE G Derivative Financial Instruments

In connection with its mortgage banking activities, the Corporation enters into commitments to originate fixed-rate residential mortgage loans for customers, also referred to as interest rate locks. In addition, the Corporation enters into forward commitments for the future sale or purchase of mortgage-backed securities to or from third-party investors to hedge the effect of changes in interest rates on the values of both the interest rate locks and mortgage loans held for sale. Forward sales commitments may also be in the form of commitments to sell individual mortgage loans at a fixed price on a future date. Both the interest rate locks and the forward commitments are accounted for as derivative financial instruments and are carried at fair value, determined as the amount that would be necessary to settle each derivative financial instrument at the balance sheet date. The amount necessary to settle each interest rate lock is based on the price that secondary market investors would pay for loans with similar characteristics, including interest rate and term, as of the date fair value is measured. Gross derivative assets and liabilities are recorded within other assets and other liabilities, respectively, on the consolidated balance sheets.

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

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

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

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

Fair value gains and losses represent the changes in the fair values of derivative financial instruments during the period and are recognized on the consolidated statements of income as components of mortgage banking income. The other components of mortgage banking income are gains and losses on sales of mortgage loans, gains and losses on the settlement of forward commitments, and net servicing income. Total mortgage banking income, including fair value adjustments on derivative financial instruments, was $5.5 million and $4.1 million for the three months ended March 31, 2011 and 2010, respectively.

NOTE H Commitments and Contingencies

Commitments

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

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

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

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

Residential Lending

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

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

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

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

Other Contingencies

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

NOTE I Fair Value Option

FASB ASC Subtopic 825-10 permits entities to measure many financial instruments and certain other items at fair value and requires certain disclosures for amounts for which the fair value option is applied. The Corporation has elected to measure mortgage loans held for sale at fair value to more accurately reflect the financial performance of its mortgage banking activities in its consolidated financial statements. Derivative financial instruments related to these activities are also recorded at fair value, as noted within Note G, Derivative Financial Instruments. The Corporation determines fair value for its mortgage loans held for sale based on the price that secondary market investors would pay for loans with similar characteristics, including interest rate and term, as of the date fair value is measured. Changes in fair value during the period are recorded as components of mortgage banking income on the consolidated statements of income. Interest income earned on mortgage loans held for sale is recorded within interest income on the consolidated statements of income.

The following table presents a summary of the Corporation s mortgage loans held for sale:

	March 31, 2011	December 31, 2010
	(in thousands)	
Cost	**$ 30,331**	$ 84,604
Fair value	**30,903**	83,940

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

NOTE J Fair Value Measurements

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

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

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

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

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

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

Items Measured at Fair Value on a Recurring Basis

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

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

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

Other financial liabilities	$ 13,582	$ 760	$ 0	$ 14,342

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

Mortgage loans held for sale This category consists of mortgage loans held for sale that the Corporation has elected to measure at fair value. Fair values as of March 31, 2011 and December 31, 2010 were measured as the price that secondary market investors were offering for loans with similar characteristics.

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

Equity securities Equity securities consist of stocks of financial institutions ($35.1 million at March 31, 2011 and $33.1 million at December 31, 2010) and other equity investments ($7.0 million at March 31, 2011 and December 31, 2010). These Level 1 investments are measured at fair value based on quoted prices for identical securities in active markets. Restricted equity securities issued by the FHLB and Federal Reserve Bank ($92.6 million at March 31, 2011 and $96.4 million at December 31, 2010) have been excluded from the above table.

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

Corporate debt securities This category includes subordinated debt issued by financial institutions ($36.8 million at March 31, 2011 and $35.9 million at December 31, 2010), single-issuer trust preferred securities issued by financial institutions ($84.9 million at March 31, 2011 and $81.8 million at December 31, 2010), pooled trust preferred securities issued by financial institutions ($4.8 million at March 31, 2011 and $4.5 million at December 31, 2010) and other corporate debt issued by non-financial institutions ($2.6 million at March 31, 2011 and December 31, 2010).
Classified as Level 2 investments are the Corporation s subordinated debt, other corporate debt issued by non-financial institutions and $76.8 million and $73.2 million of single-issuer trust preferred securities held at March 31, 2011 and December 31, 2010, respectively. These corporate debt securities are measured at fair value by a third-party pricing service using both quoted prices for similar assets, when available, and model-based valuation techniques that derive fair value based on market-corroborated data, such as instruments with similar prepayment speeds and default interest rates. As with the debt securities described above, an active market presently exists for securities similar to these corporate debt security holdings.

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

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

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

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

Other financial liabilities Included within this category are: Level 1 employee deferred compensation liabilities which represent amounts due to employees under the deferred compensation plans described under the heading Other financial assets above and Level 2 mortgage banking derivatives, described under the heading Other financial assets above.

The following tables present the changes in the Corporation s assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) for the three months ended March 31, 2011 and 2010:

	2011		
	Available for Sale Investment Securities		
	Pooled Trust Preferred Securities	Single-issuer Trust Preferred Securities (in thousands)	ARC Investments
Balance, December 31, 2010	**$ 4,528**	**$ 8,583**	**$ 260,679**
Transfer from Level 3 to Level 2 (1)		**(800)**	
Realized adjustment to fair value (2)	**(994)**	**0**	**0**
Unrealized adjustment to fair value (3)	**1,430**	**312**	**(5,219)**
Redemptions	**(147)**	**0**	**(227)**
(Premium amortization)/discount accretion (4)	**(1)**	**(1)**	**1,180**