FULTON FINANCIAL CORP
Form 10-K
February 29, 2012
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

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FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011,

or

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

Commission File Number: 0-10587

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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)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of exchange on which registered |
|---|---|
| Common Stock, $2.50 par value | The NASDAQ Stock Market, LLC |

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

| | | | |
|---|---|---|---|
| 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 Act). Yes ¨ No x

The aggregate market value of the voting Common Stock held by non-affiliates of the registrant, based on the average bid and asked prices on June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $2.1 billion. The number of shares of the registrant's Common Stock outstanding on January 31, 2012 was 200,303,000.

Portions of the Definitive Proxy Statement of the Registrant for the Annual Meeting of Shareholders to be held on April 30, 2012 are incorporated by reference in Part III.

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# PART I

## Item 1. Business

### General

Fulton Financial Corporation (the Corporation) was incorporated under the laws of Pennsylvania on February 8, 1982 and became a bank holding company through the acquisition of all of the outstanding stock of Fulton Bank on June 30, 1982. In 2000, the Corporation became a financial holding company as defined in the Gramm-Leach-Bliley Act (GLB Act), which allowed the Corporation to expand its financial services activities under its holding company structure (See “Competition” and “Supervision and Regulation”). The Corporation directly owns 100% of the common stock of six community banks and eleven non-bank entities. As of December 31, 2011, the Corporation had approximately 3,530 full-time equivalent employees.

The common stock of Fulton Financial Corporation is listed for quotation on the Global Select Market of The NASDAQ Stock Market under the symbol FULT. The Corporation’s internet address is www.fult.com. Electronic copies of the Corporation’s 2011 Annual Report on Form 10-K are available free of charge by visiting “Investor Relations” at www.fult.com. Electronic copies of quarterly reports on Form 10-Q and current reports on Form 8-K are also available at this internet address. These reports are posted as soon as reasonably practicable after they are electronically filed with the Securities and Exchange Commission (SEC).

### Bank and Financial Services Subsidiaries

The Corporation’s six subsidiary banks are located primarily in suburban or semi-rural geographical markets throughout a five-state region (Pennsylvania, Delaware, Maryland, New Jersey and Virginia). Each of these banking subsidiaries delivers financial services in a highly personalized, community-oriented style, and many decisions are made by the local management team in each market. Where appropriate, operations are centralized through common platforms and back-office functions.

From time to time, in some markets and in certain circumstances, merging subsidiary banks allows the Corporation to leverage one bank’s stronger brand recognition over a larger market. It also enables the Corporation to create operating and marketing efficiencies and avoid direct competition between two or more subsidiary banks. For example, in October 2011, the former Skylands Community Bank subsidiary consolidated with the former The Bank subsidiary to become Fulton Bank of New Jersey. In 2010, the former Delaware National Bank subsidiary consolidated into Fulton Bank, N.A.

The Corporation’s subsidiary banks are located in areas that are home to a wide range of manufacturing, distribution, health care and other service companies. The Corporation and its banks are not dependent upon one or a few customers or any one industry, and the loss of any single customer or a few customers would not have a material adverse impact on any of the subsidiary banks.

Each of the subsidiary banks offers a full range of consumer and commercial banking products and services in its local market area. Personal banking services include various checking account and savings deposit products, certificates of deposit and individual retirement accounts. The subsidiary banks offer a variety of consumer lending products to creditworthy customers in their market areas. Secured consumer loan products include home equity loans and lines of credit, which are underwritten based on loan-to-value limits specified in the Corporation's lending policy. Subsidiary banks also offer a variety of fixed and variable-rate products, including construction loans and jumbo loans. Residential mortgages are offered through Fulton Mortgage Company, which operates as a division of each subsidiary bank. Consumer loan products also include automobile loans, automobile and equipment leases, personal lines of credit, credit cards and checking account overdraft protection.

Commercial banking services are provided to small and medium sized businesses (generally with sales of less than $100 million) in the subsidiary banks’ market areas. The maximum total lending commitment to an individual borrower was $33.0 million as of December 31, 2011, which is below the Corporation’s regulatory lending limit. Commercial lending options include commercial, financial, agricultural and real estate loans. Floating, adjustable and fixed rate loans are provided, with floating and adjustable rate loans generally tied to an index such as the Prime Rate or the London Interbank Offered Rate. The Corporation’s commercial lending policy encourages relationship banking and provides strict guidelines related to customer creditworthiness and collateral requirements. In addition, equipment leasing, credit cards, letters of credit, cash management services and traditional deposit products are offered to commercial customers.

The Corporation also offers investment management, trust, brokerage, insurance and investment advisory services to consumer and commercial banking customers in the market areas serviced by the subsidiary banks.

The Corporation's subsidiary banks deliver their products and services through traditional branch banking, with a network of full service branch offices. Electronic delivery channels include a network of automated teller machines, telephone banking and online banking. The variety of available delivery channels allows customers to access their account information and perform certain transactions, such as transferring funds and paying bills, at virtually any hour of the day.

The following table provides certain information for the Corporation's banking subsidiaries as of December 31, 2011.

| Subsidiary | Main Office Location | Total Assets | Total Deposits | Branches (1) |
|---|---|---|---|---|
| | | (dollars in millions) | | |
| Fulton Bank, N.A. | Lancaster, PA | $9,015 | $6,695 | 118 |
| Fulton Bank of New Jersey | Mt. Laurel, NJ | 3,414 | 2,812 | 71 |
| The Columbia Bank | Columbia, MD | 2,001 | 1,528 | 40 |
| Lafayette Ambassador Bank | Easton, PA | 1,453 | 1,078 | 23 |
| FNB Bank, N.A. | Danville, PA | 387 | 306 | 8 |
| Swineford National Bank | Middleburg, PA | 290 | 238 | 7 |
| | | | | 267 |

(1) Remote service facilities (mainly stand-alone automated teller machines) are excluded. See additional information in "Item 2. Properties."

Non-Bank Subsidiaries

The Corporation owns 100% of the common stock of six non-bank subsidiaries which are consolidated for financial reporting purposes: (i) Fulton Reinsurance Company, LTD, which engages in the business of reinsuring credit life and accident and health insurance directly related to extensions of credit by the banking subsidiaries of the Corporation; (ii) Fulton Financial Realty Company, which holds title to or leases certain properties upon which Corporation branch offices and other facilities are located; (iii) Central Pennsylvania Financial Corp., which owns certain limited partnership interests in partnerships invested primarily in low and moderate income housing projects; (iv) FFC Management, Inc., which owns certain investment securities and other passive investments; (v) FFC Penn Square, Inc., which owns trust preferred securities issued by a subsidiary of Fulton Bank, N.A; and (vi) Fulton Insurance Services Group, Inc., which engages in the sale of various life insurance products.

The Corporation owns 100% of the common stock of five non-bank subsidiaries which are not consolidated for financial reporting purposes. The following table provides information for these non-bank subsidiaries, whose sole assets consist of junior subordinated deferrable interest debentures issued by the Corporation, as of December 31, 2011 (dollars in thousands):

| Subsidiary | State of Incorporation | Total Assets |
|---|---|---|
| Fulton Capital Trust I | Pennsylvania | $154,640 |
| SVB Bald Eagle Statutory Trust I (1) | Connecticut | 4,124 |
| Columbia Bancorp Statutory Trust | Delaware | 6,186 |
| Columbia Bancorp Statutory Trust II | Delaware | 4,124 |
| Columbia Bancorp Statutory Trust III | Delaware | 6,186 |

(1) Redeemed on January 31, 2012.

Competition

The banking and financial services industries are highly competitive. Within its geographical region, the Corporation's subsidiaries face direct competition from other commercial banks, varying in size from local community banks to larger regional and national
banks, credit unions and non-bank entities. With the growth in electronic commerce and distribution channels, the banks also face competition from financial institutions that do not have a physical presence in the Corporation's geographical markets.

The industry is also highly competitive due to the GLB Act. Under the GLB Act, banks, insurance companies or securities firms may affiliate under a financial holding company structure, allowing expansion into non-banking financial services activities that were previously restricted. These include a full range of banking, securities and insurance activities, including securities and insurance underwriting, issuing and selling annuities and merchant banking activities. While the Corporation does not currently engage in all of these activities, the ability to do so without separate approval from the Federal Reserve Board (FRB) enhances the ability of the Corporation – and financial holding companies in general – to compete more effectively in all areas of financial services.

As a result of the GLB Act, there is a great deal of competition for customers that were traditionally served by the banking industry. While the GLB Act increased competition, it also provided opportunities for the Corporation to expand its financial services offerings. The Corporation competes through the variety of products that it offers and the quality of service that it provides to its customers. However, there is no guarantee that these efforts will insulate the Corporation from competitive pressure, which could impact its pricing decisions for loans, deposits and other services and could ultimately impact financial results.

Market Share

Although there are many ways to assess the size and strength of banks, deposit market share continues to be an important industry statistic. This publicly available information is compiled, as of June 30 of each year, by the Federal Deposit Insurance Corporation (FDIC). The Corporation's banks maintain branch offices in 53 counties across five states. In 11 of these counties, the Corporation ranked in the top three in deposit market share (based on deposits as of June 30, 2011). The following table summarizes information about the counties in which the Corporation has branch offices and its market position in each county.

| | | | | No. of Financial Institutions | | Deposit Market Share (June 30, 2011) | | |
|---|---|---|---|---|---|---|---|---|
| County | State | Population (2011 Est.) | Banking Subsidiary | Banks/ Thrifts | Credit Unions | Rank | % | |
| Lancaster | PA | 517,000 | Fulton Bank, N.A. | 18 | 15 | 2 | 22.7 | % |
| Berks | PA | 414,000 | Fulton Bank, N.A. | 21 | 13 | 7 | 4.4 | % |
| Bucks | PA | 633,000 | Fulton Bank, N.A. | 36 | 22 | 17 | 2.0 | % |
| Centre | PA | 148,000 | Fulton Bank, N.A. | 17 | 4 | 15 | 1.7 | % |
| Chester | PA | 511,000 | Fulton Bank, N.A. | 39 | 9 | 12 | 2.6 | % |
| Columbia | PA | 66,000 | FNB Bank, N.A. | 6 | 2 | 5 | 4.8 | % |
| Cumberland | PA | 237,000 | Fulton Bank, N.A. | 19 | 7 | 14 | 1.7 | % |
| Dauphin | PA | 262,000 | Fulton Bank, N.A. | 18 | 11 | 6 | 4.3 | % |
| Delaware | PA | 563,000 | Fulton Bank, N.A. | 41 | 17 | 35 | 0.2 | % |
| Lebanon | PA | 133,000 | Fulton Bank, N.A. | 11 | 6 | 1 | 31.2 | % |
| Lehigh | PA | 350,000 | Lafayette Ambassador Bank | 22 | 15 | 10 | 3.6 | % |
| Lycoming | PA | 117,000 | FNB Bank, N.A. | 11 | 11 | 14 | 1.0 | % |
| Montgomery | PA | 791,000 | Fulton Bank, N.A. | 48 | 35 | 25 | 0.5 | % |
| Montour | PA | 18,000 | FNB Bank, N.A. | 4 | 3 | 2 | 29.5 | % |
| Northampton | PA | 305,000 | Lafayette Ambassador Bank | 17 | 13 | 3 | 14.3 | % |
| Northumberland | PA | 92,000 | Swineford National Bank | 18 | 4 | 14 | 1.5 | % |
| | | | FNB Bank, N.A. | | | 7 | 4.9 | % |
| Schuylkill | PA | 148,000 | Fulton Bank, N.A. | 20 | 3 | 9 | 3.9 | % |
| Snyder | PA | 39,000 | Swineford National Bank | 8 | 1 | 1 | 30.3 | % |
| Union | PA | 44,000 | Swineford National Bank | 8 | 3 | 6 | 6.1 | % |
| York | PA | 438,000 | Fulton Bank, N.A. | 17 | 16 | 4 | 10.7 | % |
| New Castle | DE | 543,000 | Fulton Bank, N.A. | 36 | 24 | 23 | 0.3 | % |
| Sussex | DE | 199,000 | Fulton Bank, N.A. | 14 | 5 | 5 | 7.0 | % |
| Anne Arundel | MD | 532,000 | The Columbia Bank | 32 | 14 | 31 | 0.1 | % |
| Baltimore | MD | 801,000 | The Columbia Bank | 54 | 34 | 25 | 0.7 | % |
| Baltimore City | MD | 642,000 | The Columbia Bank | 37 | 19 | 31 | 0.3 | % |
| Cecil | MD | 103,000 | The Columbia Bank | 7 | 4 | 3 | 11.6 | % |
| Frederick | MD | 233,000 | The Columbia Bank | 18 | 5 | 17 | 0.7 | % |
| Howard | MD | 290,000 | The Columbia Bank | 20 | 6 | 3 | 10.9 | % |
| Montgomery | MD | 999,000 | The Columbia Bank | 38 | 38 | 2 | 19.7 | % |
| Prince George's | MD | 845,000 | The Columbia Bank | 21 | 27 | 33 | 0.2 | % |
| Washington | MD | 149,000 | The Columbia Bank | 13 | 5 | 17 | 1.1 | % |
| Atlantic | NJ | 276,000 | | 16 | 7 | 13 | 1.4 | % |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Fulton Bank of New Jersey | | | | | |
| Burlington | NJ | 450,000 | Fulton Bank of New Jersey | 22 | 15 | 19 | 0.6 | % |
| Camden | NJ | 523,000 | Fulton Bank of New Jersey | 20 | 10 | 11 | 2.1 | % |
| Cumberland | NJ | 161,000 | Fulton Bank of New Jersey | 12 | 5 | 11 | 2.1 | % |
| Gloucester | NJ | 296,000 | Fulton Bank of New Jersey | 23 | 6 | 2 | 13.2 | % |

| County | State | Population (2011 Est.) | Banking Subsidiary | No. of Financial Institutions Banks/ Thrifts | Credit Unions | Deposit Market Share (June 30, 2011) Rank | % | |
|---|---|---|---|---|---|---|---|---|
| Hunterdon | NJ | 132,000 | Fulton Bank of New Jersey | 15 | 7 | 12 | 3.0 | % |
| Mercer | NJ | 371,000 | Fulton Bank of New Jersey | 26 | 24 | 20 | 1.2 | % |
| Middlesex | NJ | 803,000 | Fulton Bank of New Jersey | 47 | 33 | 28 | 0.4 | % |
| Monmouth | NJ | 651,000 | Fulton Bank of New Jersey | 26 | 13 | 25 | 0.6 | % |
| Morris | NJ | 494,000 | Fulton Bank of New Jersey | 31 | 19 | 17 | 1.1 | % |
| Ocean | NJ | 585,000 | Fulton Bank of New Jersey | 23 | 8 | 17 | 0.7 | % |
| Salem | NJ | 67,000 | Fulton Bank of New Jersey | 8 | 5 | 1 | 27.2 | % |
| Somerset | NJ | 334,000 | Fulton Bank of New Jersey | 28 | 13 | 8 | 2.5 | % |
| Sussex | NJ | 152,000 | Fulton Bank of New Jersey | 12 | 1 | 11 | 0.7 | % |
| Warren | NJ | 111,000 | Fulton Bank of New Jersey | 13 | 4 | 3 | 11.0 | % |
| Chesapeake | VA | 226,000 | Fulton Bank, N.A. | 13 | 11 | 11 | 1.9 | % |
| Fairfax | VA | 1,059,000 | Fulton Bank, N.A. | 40 | 32 | 39 | 0.1 | % |
| Henrico | VA | 304,000 | Fulton Bank, N.A. | 23 | 18 | 20 | 0.1 | % |
| Manassas | VA | 37,000 | Fulton Bank, N.A. | 15 | 4 | 11 | 1.3 | % |
| Newport News | VA | 190,000 | Fulton Bank, N.A. | 12 | 9 | 14 | 0.6 | % |
| Richmond City | VA | 204,000 | Fulton Bank, N.A. | 16 | 13 | 17 | 0.2 | % |
| Virginia Beach | VA | 439,000 | Fulton Bank, N.A. | 16 | 13 | 11 | 1.9 | % |

Supervision and Regulation

The Corporation operates in an industry that is subject to various laws and regulations that are enforced by a number of federal and state agencies. Changes in these laws and regulations, including interpretation and enforcement activities, could impact the cost of operating in the financial services industry, limit or expand permissible activities or affect competition among banks and other financial institutions.

The following discussion summarizes the current regulatory environment for financial holding companies and banks, including a summary of the more significant laws and regulations.

Regulators – The Corporation is a registered financial holding company, and its subsidiary banks are depository institutions whose deposits are insured by the FDIC. The Corporation and its subsidiaries are subject to various regulations and examinations by regulatory authorities. The following table summarizes the charter types and primary regulators for each of the Corporation’s subsidiary banks.

| Subsidiary | Charter | Primary Regulator(s) |
|---|---|---|
| Fulton Bank, N.A. | National | OCC |
| Fulton Bank of New Jersey | NJ | NJ/FDIC |
| The Columbia Bank | MD | MD/FDIC |
| Lafayette Ambassador Bank | PA | PA/FRB |

| | | |
|---|---|---|
| FNB Bank, N.A. | National | OCC |
| Swineford National Bank | National | OCC |
| Fulton Financial (Parent Company) | N/A | FRB |

OCC - Office of the Comptroller of the Currency.

Federal statutes that apply to the Corporation and its subsidiaries include the GLB Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the Bank Holding Company Act (BHCA), the Federal Reserve Act and the Federal Deposit Insurance Act, among others. In general, these statutes and related interpretations establish the eligible business activities of the Corporation, certain acquisition and merger restrictions, limitations on intercompany transactions, such as loans and dividends, and capital adequacy requirements, among other statutes and regulations.

The Corporation is subject to regulation and examination by the FRB, and is required to file periodic reports and to provide additional information that the FRB may require. In addition, the FRB must approve certain proposed changes in organizational structure or other business activities before they occur. The BHCA imposes certain restrictions upon the Corporation regarding the acquisition of substantially all of the assets of or direct or indirect ownership or control of any bank for which it is not already the majority owner.

Regulatory Reforms – The Dodd-Frank Act was enacted in July 2010 and implemented significant financial regulatory reform. The scope of the Dodd-Frank Act impacts many aspects of the financial services industry, and it requires the development and adoption of many regulations, many of which have not yet been issued. The effects of the Dodd-Frank Act on the financial services industry will depend, in large part, upon the extent to which regulators exercise the authority granted to them under the Dodd-Frank Act and the approaches taken in implementing regulations. The Corporation has established a cross-functional team of senior officers that is responsible for monitoring the ongoing implementation of the Dodd-Frank Act and for advising management of the potential impact of the various provisions of the Dodd-Frank Act on the Corporation's business and operations.

The following is a listing of significant provisions of the Dodd-Frank Act, and, if applicable, the resulting regulatory rules adopted, that have, or will, most directly affect the Corporation and its subsidiaries:

- Federal deposit insurance – On April 1, 2011, the FDIC's revised deposit insurance assessment base changed from total domestic deposits to average total assets, minus average tangible equity. In addition, the Dodd-Frank Act created a two scorecard system, one for large depository institutions that have more than $10 billion in assets and another for highly complex institutions that have over $50 billion in assets. See details under the heading "Federal Deposit Insurance" below.
- Debit card interchange fees – In June 2011, the FRB adopted regulations which became effective on October 1, 2011 and set maximum permissible interchange fees issuers can receive or charge on debit card transactions. During the fourth quarter of 2011, debit card income decreased $2.4 million, or 51.9%, compared to the third quarter of 2011.
- Interest on demand deposits – Beginning in July 2011, depository institutions were no longer prohibited from paying interest on business transaction and other accounts.
- Incentive compensation – As required by the Dodd-Frank Act, a joint interagency proposed regulation was issued in April 2011. The proposed rule would require the reporting of incentive-based compensation arrangements by a covered financial institution and prohibit incentive-based compensation arrangements at a covered financial institution that provide excessive compensation or that could expose the institution to inappropriate risks that could lead to material financial loss. The proposed rule, if adopted as currently proposed, could limit the manner in which the Corporation structures incentive compensation for its executives.
- Stress testing – In June 2011, the banking agencies issued proposed guidance which described the manner in which stress testing should be employed as an integral component of risk management and as a component of capital and liquidity planning by certain banking organizations. Specifically, this proposed guidance would apply to banking organizations, including the Corporation, with total consolidated assets of more than $10 billion and sets forth expectations that those banking organizations will conduct both regular periodic stress tests and ad hoc stress tests in response to emerging risks.

In addition to the above provisions, the Dodd-Frank Act also requires regulatory agencies to adopt the following other significant rules, that because of its business practices and size, are not likely to impact the Corporation, as follows:

- The Dodd-Frank Act created the Consumer Financial Protection Bureau (CFPB). Effective July 21, 2011, the CFPB became responsible for administering and enforcing numerous federal consumer financial laws enumerated in the Dodd-Frank Act. The Dodd-Frank Act also provided that for banks with total assets of more than $10 billion, the CFPB would have exclusive or primary authority to examine those banks for, and enforce compliance with the federal consumer financial laws. As of December 31, 2011, none of the Corporation's subsidiary banks had total assets of more than $10 billion.
- Comprehensive Capital Analysis and Review Rules (CCAR Rules) – In November 2011, the FRB adopted rules requiring bank holding companies with total consolidated assets of $50 billion or more to submit annual capital plans to the FRB. The payment of dividends and the repurchase of stock may only be permitted under capital plans approved by the FRB. Based on its current asset size of $16.4 billion, the Corporation is well below the $50 billion threshold which would require compliance with the proposed CCAR Rules. However, while these rules would not be

applicable to the Corporation, regulators could evaluate whether proposed dividend payments or stock repurchases by the Corporation represent unsafe or unsound practices in the future.

- Volcker Rule – As required by the Dodd-Frank Act, a joint interagency proposed regulation was issued in October 2011that

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prohibits a banking entity and nonbank financial company supervised by the FRB from engaging in proprietary trading or having certain interests in, or relationships with, a hedge fund or private equity fund. The Corporation believes that it does not currently engage in the activities or have any interests or relationships, as defined in the proposed regulation, which are prohibited. However, the proposed regulation, if adopted, would place further compliance burdens on the Corporation to develop policies and procedures that ensure the Corporation, on an ongoing basis, does not engage in any activities or relationships which are prohibited.

Capital Requirements – There are a number of restrictions on financial and bank holding companies and FDIC-insured depository subsidiaries that are designed to minimize potential loss to depositors and the FDIC insurance funds. If an FDIC-insured depository subsidiary is "undercapitalized," the bank holding company is required to ensure (subject to certain limits) the subsidiary's compliance with the terms of any capital restoration plan filed with its appropriate banking agency. Also, a bank holding company is required to serve as a source of financial strength to its depository institution subsidiaries and to commit resources to support such institutions in circumstances where it might not do so absent such policy. Under the BHCA, the FRB has the authority to require a bank holding company to terminate any activity or to relinquish control of a non-bank subsidiary upon the FRB's determination that such activity or control constitutes a serious risk to the financial soundness and stability of a depository institution subsidiary of the bank holding company.

Bank holding companies are required to comply with the FRB's risk-based capital guidelines that require a minimum ratio of total capital to risk-weighted assets of 8%. At least half of the total capital is required to be Tier 1 capital. In addition to the risk-based capital guidelines, the FRB has adopted a minimum leverage capital ratio under which a bank holding company must maintain a level of Tier 1 capital to average total consolidated assets of at least 3% in the case of a bank holding company which has the highest regulatory examination rating and is not contemplating significant growth or expansion. For all other bank holding companies, the minimum ratio of Tier 1 capital to total assets is 4%. Banking organizations with supervisory, financial, operational, or managerial weaknesses, as well as organizations that are anticipating or experiencing significant growth, are expected to maintain capital ratios well above the minimum levels. Moreover, higher capital ratios may be required for any bank holding company if warranted by its particular circumstances or risk profile. In all cases, bank holding companies should hold capital commensurate with the level and nature of the risks, including the volume and severity of problem loans, to which they are exposed.

In addition, although U.S. banking regulators have not yet proposed implementing regulations, the framework for strengthening international capital and liquidity regulations adopted by The Basel Committee on Banking Supervision (Basel) in December 2010 is expected to impose new minimum capital requirements for domestic banks, including the Corporation's banking subsidiaries, beginning January 1, 2013. For additional discussion of the anticipated new Basel minimum capital requirements, see Part II - Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Shareholder's Equity."

Loans and Dividends from Subsidiary Banks – There are also various restrictions on the extent to which the Corporation and its non-bank subsidiaries can receive loans from its banking subsidiaries. In general, these restrictions require that such loans be secured by designated amounts of specified collateral and are limited, as to any one of the Corporation or its non-bank subsidiaries, to 10% of the lending bank's regulatory capital (20% in the aggregate to all such entities).

The Corporation is also limited in the amount of dividends that it may receive from its subsidiary banks. Dividend limitations vary, depending on the subsidiary bank's charter and whether or not it is a member of the Federal Reserve System. Generally, subsidiaries are prohibited from paying dividends when doing so would cause them to fall below the regulatory minimum capital levels. Additionally, limits may exist on paying dividends in excess of net income for specified periods. See "Note J – Regulatory Matters" in the Notes to Consolidated Financial Statements for additional information regarding regulatory capital and dividend and loan limitations.

Federal Deposit Insurance – Substantially all of the deposits of the Corporation's subsidiary banks are insured up to the applicable limits by the Deposit Insurance Fund (DIF) of the FDIC, generally up to $250,000 per insured depositor. The Corporation's subsidiary banks are subject to deposit insurance assessments to maintain the DIF.

The subsidiary banks pay deposit insurance premiums based on assessment rates established by the FDIC. The FDIC has established a risk-based assessment system under which institutions are classified and pay premiums according to their perceived risk to the Federal deposit insurance funds. The FDIC is not required to charge deposit insurance premiums when the ratio of deposit insurance reserves to insured deposits is maintained above specified levels.

In May 2009, the FDIC levied a special assessment applicable to all insured depository institutions totaling 5 basis points of each institution’s total assets less Tier 1 capital as of June 30, 2009, resulting in a pre-tax charge of $7.7 million for the Corporation. In November 2009, the FDIC issued a ruling requiring insured depository institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. As of December 31, 2011, the balance of prepaid FDIC assessments included in other assets on the Corporation's consolidated balance sheet was $34.6 million. In October 2010, as required by the Dodd-Frank Act, the FDIC adopted a DIF restoration plan to ensure a 1.35% fund reserve ratio by September 30, 2020. On at least a semi-annual basis, the FDIC will determine if a future adjustment of assessment rates will be needed based on its income and loss projections for the DIF. In November 2010, the FDIC issued a ruling which, effective December 31, 2010, provides unlimited coverage for non-interest bearing transaction accounts until December 31, 2012.

On April 1, 2011, as required by the Dodd-Frank Act, the deposit insurance assessment base changed from total domestic deposits to average total assets, minus average tangible equity. In addition, the FDIC also created a two scorecard system, one for large depository institutions that have $10 billion or more in assets and another for highly complex institutions that have $50 billion or more in assets. As of December 31, 2011, none of the Corporation's individual subsidiary banks had assets of $10 billion or more and would, therefore, not meet the classification of large depository institutions.

USA Patriot Act – Anti-terrorism legislation enacted under the USA Patriot Act of 2001 (Patriot Act) expanded the scope of anti-money laundering laws and regulations and imposed significant new compliance obligations for financial institutions, including the Corporation's subsidiary banks. These regulations include obligations to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. Failure to comply with the Patriot Act's requirements could have serious legal, financial and reputational consequences. The Corporation has adopted appropriate policies, procedures and controls to address compliance with the Patriot Act and will continue to revise and update its policies, procedures and controls to reflect required changes.

Sarbanes-Oxley Act of 2002 – The Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley), which was signed into law in July 2002, impacts all companies with securities registered under the Securities Exchange Act of 1934, including the Corporation. Sarbanes-Oxley created new requirements in the areas of corporate governance and financial disclosure including, among other things, (i) increased responsibility for Chief Executive Officers and Chief Financial Officers with respect to the content of filings with the SEC; (ii) enhanced requirements for audit committees, including independence and disclosure of expertise; (iii) enhanced requirements for auditor independence and the types of non-audit services that auditors can provide; (iv) accelerated filing requirements for SEC reports; (v) disclosure of a code of ethics; (vi) increased disclosure and reporting obligations for companies, their directors and their executive officers; and (vii) new and increased civil and criminal penalties for violations of securities laws. Many of the provisions became effective immediately, while others became effective as a result of rulemaking procedures delegated by Sarbanes-Oxley to the SEC.

Section 404 of Sarbanes-Oxley requires management to issue a report on the effectiveness of its internal controls over financial reporting. In addition, the Corporation's independent registered public accountants are required to issue an opinion on the effectiveness of the Corporation's internal control over financial reporting. These reports can be found in Item 8, "Financial Statements and Supplementary Data." Certifications of the Chief Executive Officer and the Chief Financial Officer as required by Sarbanes-Oxley and the resulting SEC rules can be found in the "Signatures" and "Exhibits" sections.

Executive Officers

As of December 31, 2011, the executive officers of the Corporation are as follows:

| Name | Age | Office Held and Term of Office |
|---|---|---|
| R. Scott Smith, Jr. | 64 | Chairman of the Board and Chief Executive Officer of Fulton Financial Corporation since December 2008; Chairman of the Board, President and Chief Executive Officer of Fulton Financial Corporation from January 2006 to December 2008; President and Chief Operating Officer of Fulton Financial Corporation from 2001 to 2005; and Executive Vice President of Fulton Financial Corporation and Chairman, President and Chief Executive Officer of Fulton Bank from 1998 to 2001. |
| E. Philip Wenger | 54 | President and Chief Operating Officer of Fulton Financial Corporation since December 2008; Senior Executive Vice President of Fulton Financial Corporation from January 2006 to December 2008 and Chairman of Fulton Bank from October 2006 to February 2009; Chief Executive Officer of Fulton Bank from January 2006 to October 2006; President and Chief Operating Officer of Fulton Bank from 2003 to 2006; and Senior Executive Vice President of the Lancaster, York and Chester County Divisions of Fulton Bank from 2001 to 2003. |
| Charles J. Nugent | 63 | Senior Executive Vice President and Chief Financial Officer of Fulton Financial Corporation since January 2001; and Executive Vice President and Chief Financial Officer of Fulton Financial Corporation from 1992 to 2001. |
| James E. Shreiner | 62 | Senior Executive Vice President of Fulton Financial Corporation since January 2006; and Executive Vice President of Fulton Financial Corporation and Executive Vice President of Fulton Bank from 2000 to 2005. Mr. Shreiner serves as the Corporation's Senior Risk Officer. |
| Craig A. Roda | 55 | Senior Executive Vice President of Fulton Financial Corporation since July 2011; and Chairman and Chief Executive Officer of Fulton Bank, N.A., since February 2009. Chief Executive Officer and President of Fulton Bank, N.A. from 2006 to 2009. |
| Craig H. Hill | 56 | Senior Executive Vice President of Fulton Financial Corporation since January 2006 and Executive Vice President/Director of Human Resources from 1999 through 2005. Mr. Hill serves as the Corporation's Senior Human Resources Officer. |

Item 1A. Risk Factors

An investment in the Corporation's common stock involves certain risks, including, among others, the risks described below. In addition to the other information contained in this report, you should carefully consider the following risk factors.

While there have been recent indications that economic conditions are improving, the Corporation continues to operate in a difficult business environment.

From December 2007 through June 2009, the U.S. economy was in a recession. Business activity across a wide range of industries and regions in the United States was greatly reduced. Although economic conditions have begun to improve, the improvement has been sluggish and limited in scope. There can be no assurance that this improvement will continue and certain sectors, such as real estate and manufacturing, remain weak and unemployment remains high. Some state and local governments and many businesses are still experiencing serious financial difficulty.

The current challenges affecting the Corporation, some of which are addressed in more detail below, include the following:

- Low market interest rates, which have been projected by many to continue for some time, have pressured net interest margins as interest-earning assets, such as loans and investments, have been reinvested or repriced at lower rates. Banks are also reluctant to invest in longer-term assets at historically low interest rates;
- Loan demand remains sluggish as consumers continue to reduce debt levels and increase savings and many businesses are reluctant to expand their operations. Confidence levels of both individuals and businesses in the economy appear to be improving but their confidence remains fragile;
- The time and expense associated with regulatory compliance and risk management efforts continues to increase. Thus, balancing the need to address regulatory changes and the desire to enhance shareholder value has become more challenging than it has been in the past;
- Bank regulators are scrutinizing banks through longer and more extensive bank examinations in both the safety and

soundness and compliance areas. In addition, both regulators and banks are being challenged with keeping up with the sweeping changes mandated by the Dodd-Frank Act;

- The reputation of, and public confidence in, the banking industry appears to have suffered as a result of continuing criticisms of the industry by politicians and the media. In many cases, these criticisms have not differentiated community banking organizations, such as the Corporation, from larger, more diverse organizations that engaged in certain practices that many observers believe helped contribute to the recent difficulties in the financial markets and the economy generally;
- The bank regulatory agencies have been challenged in implementing many of the regulations mandated by the Dodd Frank Act on the timelines contemplated by such legislation, resulting in a lack of clear regulatory guidance to banks. The resulting uncertainty has caused banks to take a cautious approach to business initiatives and planning;
- Beginning in October 2011, fee income has been adversely impacted by regulatory changes that have reduced debit card interchange revenue;
- Merger and acquisition activity has been restrained due to factors such as market volatility, lower market prices of the stock of potential buyers, lingering credit concerns, regulatory uncertainty and a disparity in price expectations between potential buyers and potential sellers. As a result, supplementing internal growth through acquisitions has been more difficult; and
- Concerns about the European Union sovereign debt crisis have caused uncertainty for financial markets globally.

Difficult conditions in the economy and the capital markets may materially adversely affect the Corporation's business and results of operations.

The Corporation's results of operations and financial condition are affected by conditions in the capital markets and the economy generally. The Corporation's financial performance is highly dependent upon on the business environment in the markets where the Corporation operates and in the United States as a whole. The business environment impacts the ability of borrowers to pay interest on and repay principal of outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services the Corporation offers. A favorable business environment is generally characterized by, among other factors, economic growth, efficient capital markets, low inflation, low unemployment, high business and investor confidence, and strong business earnings. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence, limitations on the availability or increases in the cost of credit and capital, increases in inflation or interest rates, high unemployment, natural disasters or a combination of these or other factors.

Included among the potential adverse effects of economic downturns on the Corporation are the following:

- Economic downturns and the composition of the Corporation's loan portfolio could impact the level of loan charge-offs and the provision for credit losses and may affect the Corporation's net income. National, regional and local economic conditions can impact the Corporation's loan portfolio. For example, an increase in unemployment, a decrease in real estate values or increases in interest rates, as well as other factors, could weaken the economies of the communities the Corporation serves. Weakness in the market areas served by the Corporation may depress the Corporation's earnings and consequently its financial condition because:
  borrowers may not be able to repay their loans;
  the value of the collateral securing the Corporation's loans to borrowers may decline; and
  the quality of the Corporation's loan portfolio may decline.

Any of these scenarios could require the Corporation to increase its provision for credit losses, which would negatively impact its results of operations and could result in charge-offs of a higher percentage of its loans.

Approximately $5.2 billion, or 43.6%, of the Corporation's loan portfolio was in commercial mortgage and construction loans at December 31, 2011. The Corporation did not have a concentration of credit risk with any single borrower, industry or geographical location. However, the performance of real estate markets and the weak economic conditions in general may adversely impact the performance of these loans.

In 2011, the Corporation's provision for credit losses was $135.0 million. While the Corporation believes that its allowance for credit losses as of December 31, 2011 is sufficient to cover losses inherent in the loan portfolio on that date, the Corporation may be required to increase its provision for credit losses due to changes in the risk characteristics of the loan portfolio, thereby negatively impacting its results of operations.

- Economic downturns or a protracted low-growth environment, particularly when these conditions affect the Corporation's geographic market areas, could reduce the demand for the Corporation's financial products, such as loans and deposits. The Corporation's success depends significantly upon the growth in population, employment and income levels, deposits, loans and housing starts in its geographic markets. Unlike large, national institutions, the

Corporation is not able to spread the risks of unfavorable local economic conditions across a large number of diversified economies and geographic locations. If the communities in which the Corporation operates do not grow, or if prevailing economic conditions locally or nationally are unfavorable, its business could be adversely affected. In addition, increased market competition in a lower demand environment could adversely affect the profit potential of the Corporation; for example, in order to remain competitive, the Corporation may be required to offer interest rates on loans and deposits that might not be offered in different business conditions.

- Negative developments in the financial industry and the credit markets may subject the Corporation to additional regulation. The Corporation and its subsidiaries are subject to regulation and examinations by various regulatory authorities. Negative developments in the financial industry and the domestic and international credit markets, and the impact of legislation in response to those developments, may negatively impact the Corporation's operations and financial condition. The potential exists for new federal or state regulations regarding lending and funding practices, capital requirements, deposit insurance premiums, other bank-focused special assessments and liquidity standards. Bank regulatory agencies have been active in responding to concerns and trends identified in examinations, which may result in the issuance of formal enforcement orders.

Changes in interest rates may have an adverse effect on the Corporation's net income.

The Corporation is affected by fiscal and monetary policies of the federal government, including those of the Federal Reserve Board, which regulates the national money supply and engages in other lending and investment activities in order to manage recessionary and inflationary pressures. Among the techniques available to the Federal Reserve Board are engaging in open market transactions of U.S. Government securities, changing the discount rate and changing reserve requirements against bank deposits. The use of these techniques may also affect interest rates charged on loans and paid on deposits.

Net interest income is the most significant component of the Corporation's net income, accounting for approximately 76% of total revenues in 2011. The narrowing of interest rate spreads, the difference between interest rates earned on loans and investments and interest rates paid on deposits and borrowings, could adversely affect the Corporation's net interest income and financial condition. Regional and local economic conditions, as well as fiscal and monetary policies of the federal government, including those of the Federal Reserve Board, may affect prevailing interest rates. The Corporation cannot predict or control changes in interest rates.

Price fluctuations in securities markets, as well as other market events, such as a disruption in credit and other markets and the abnormal functioning of markets for securities, could have an impact on the Corporation's results of operations.

As of December 31, 2011, the Corporation's equity investments consisted of Federal Home Loan Bank and Federal Reserve Bank stock ($82.5 million), common stocks of publicly traded financial institutions ($27.9 million), and other equity investments ($6.7 million). The value of the securities in the Corporation's equity portfolio may be affected by a number of factors, including factors that impact the performance of the U.S. securities market in general and specific risks associated with the financial institution sector. General economic conditions and uncertainty surrounding the financial institution sector as a whole has impacted the value of these securities. Declines in bank stock values, in general, as well as deterioration in the performance of specific banks, could result in additional other-than-temporary impairment charges.

As of December 31, 2011, the Corporation had $120.8 million of corporate debt securities issued by financial institutions. As with stocks of financial institutions, continued declines in the values of these securities, combined with adverse changes in the expected cash flows from these investments, could result in additional other-than-temporary impairment charges. Included in corporate debt securities as of December 31, 2011 were $5.1 million in pooled trust preferred securities. Further deterioration in the ability of banks within pooled trust preferred holdings to make contractual debt payments could result in an adverse impact on the credit-related valuation portion of these securities.

As of December 31, 2011, the Corporation had $322.0 million of municipal securities issued by various municipalities in its investment portfolio. Ongoing uncertainty with respect to the financial viability of municipal insurers places much greater emphasis on the underlying strength of issuers. Increasing pressure on local tax revenues of issuers due to adverse economic conditions could also have a negative impact on the underlying credit quality of issuers. The Corporation evaluates existing and potential holdings primarily on the underlying credit-worthiness of the issuing municipality and then, to a lesser extent, on the credit enhancement corresponding to the individual issuance. As of December 31, 2011, approximately 94% of municipal securities were supported by the general obligation of corresponding municipalities. In addition, approximately 72% of these securities were school district issuances that are supported by the general obligation of the corresponding municipalities as of December 31, 2011.

The Corporation's investment management and trust division, Fulton Financial Advisors, previously held student loan auction rate securities, also known as auction rate certificates (ARCs), for some of its customers' accounts. From the second quarter of 2008 through 2009, the Corporation purchased illiquid ARCs from customers of Fulton Financial Advisors. Total ARCs included in the Corporation's investment securities at December 31, 2011 were $225.2 million. Continued uncertainty with respect to resolution of auction rate security market illiquidity, the current low interest rate environment and potential changes in repayment performance of certain student loans underlying the ARCs that are not guaranteed by the federal government could adversely affect the performance of individual holdings.

The Corporation's investment management and trust services income could also be impacted by fluctuations in the securities markets. A portion of this revenue is based on the value of the underlying investment portfolios. If the values of those investment portfolios decrease, whether due to factors influencing U.S. securities markets, in general or otherwise, the Corporation's revenue could be negatively impacted. In addition, the Corporation's ability to sell its brokerage services is dependent, in part, upon consumers' level of confidence in securities markets.

The supervision and regulation to which the Corporation is subject can be a competitive disadvantage.

The Corporation is a registered financial holding company, and its subsidiary banks are depository institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC). The Corporation is extensively regulated under federal and state banking laws and regulations that are intended primarily for the protection of depositors, federal deposit insurance funds and the banking system as a whole. In general, these laws and regulations establish: the eligible business activities for the Corporation; certain acquisition and merger restrictions; limitations on intercompany transactions such as loans and dividends; capital adequacy requirements; requirements for anti-money laundering programs; and other compliance matters. Compliance with these statutes and regulations is important to the Corporation's ability to engage in new activities and to consummate additional acquisitions. While these statutes and regulations are generally designed to minimize potential loss to depositors and the FDIC insurance funds, they do not eliminate risk, and compliance with such statutes and regulations increases the Corporation's expense, requires management's attention and can be a disadvantage from a competitive standpoint with respect to non-regulated competitors.

Federal and state banking regulators also possess broad powers to take supervisory actions, as they deem appropriate. These supervisory actions may result in higher capital requirements, higher insurance premiums and limitations on the Corporation's activities that could have a material adverse effect on its business and profitability.

The federal government, the Federal Reserve Board and other governmental and regulatory bodies have taken, and may in the future take other actions, in response to the stress on the financial system. For example, the Federal Reserve Board recently announced its intention to maintain short-term interest rates near zero through at least late 2014. Such actions, although intended to aid the financial markets, and continued volatility in the markets could materially and adversely affect the Corporation's business, financial condition and results of operations, or the trading price of the Corporation's common stock.

In addition, the Corporation is subject to changes in federal and state tax laws as well as changes in banking and credit regulations, accounting principles, governmental economic and monetary policies and collection efforts by taxing authorities.

Financial reform legislation is likely to have a significant impact on the Corporation's business and results of operations; however, until more implementing regulations are adopted, the extent to which the legislation will impact the Corporation is uncertain.

On July 21, 2010, the President of the United States signed into law the Dodd-Frank Act. Among other things, the Dodd-Frank Act created the Financial Stability Oversight Council, with oversight authority for monitoring and regulating systemic risk, and the Bureau of Consumer Financial Protection, which will have broad regulatory and enforcement powers over consumer financial products and services. The Dodd-Frank Act also changed the responsibilities of the current federal banking regulators, imposed additional corporate governance and disclosure requirements in areas such as executive compensation and proxy access, and limited or prohibited proprietary trading and hedge fund and private equity activities of banks.

The scope of the Dodd-Frank Act impacted many aspects of the financial services industry, and it requires the development and adoption of many regulations over the next several months and years. The effects of the Dodd-Frank Act on the financial services industry will depend, in large part, upon the extent to which regulators exercise the authority granted to them under the Dodd-Frank Act and the approaches taken in implementing regulations. Additional uncertainty regarding the effect of the Dodd-Frank Act exists due to the potential for additional legislative changes to the Dodd-Frank Act. The Corporation, as well as the broader financial services industry, is continuing to assess the potential impact of the Dodd-Frank Act (and its possible impact on customers' behaviors) on its business and operations but, at this stage, the extent of the impact cannot be fully determined with any degree of certainty. However, the Corporation has been impacted, and will likely continue to be in the future, by the so-called Durbin Amendment to the Dodd-Frank Act, which reduced debit card interchange revenue of banks; revised deposit insurance assessments;

and increased compliance costs. It also is likely to be impacted by the Dodd-Frank Act in the areas of corporate governance, capital requirements, risk management, stress testing and regulation under consumer protection laws.

Increases in FDIC insurance premiums may adversely affect the Corporation's earnings.

In response to the impact of economic conditions since December 2007 on banks generally and on the FDIC deposit insurance fund (DIF), the FDIC changed its risk-based assessment system and increased base assessment rates. On November 12, 2009, the FDIC adopted a rule requiring banks to prepay three years' worth of premiums to replenish the depleted insurance fund.

In February 2011, as required under the Dodd-Frank Act, the FDIC issued a ruling pursuant to which the assessment base against which FDIC assessments for deposit insurance are made was changed. Instead of FDIC insurance assessments being based upon an insured bank's deposits, FDIC insurance assessments are now generally based on an insured bank's total average assets, minus average tangible equity. With this change, the Corporation's overall FDIC insurance cost has declined. However, a change in the risk categories applicable to the Corporation's bank subsidiaries, further adjustments to base assessment rates and any special assessments could have a material adverse effect on the Corporation. In addition, should one of the Corporation's subsidiary banks have assets above $10 billion for four consecutive quarters, a higher assessment could apply to that subsidiary for the purposes of calculating its FDIC insurance premium. The Corporation's largest subsidiary bank, Fulton Bank, N. A., had $9.0 billion in assets as of December 31, 2011. Based on current regulations, the Corporation has estimated that Fulton Bank, N. A., would pay approximately $1 million in additional FDIC insurance premiums if it were to reach the $10 billion threshold.

The Dodd-Frank Act also requires that the FDIC take steps necessary to increase the level of the DIF to 1.35% of total insured deposits by September 30, 2020. In October 2010, the FDIC adopted a Restoration Plan to achieve that goal. Certain elements of the Restoration Plan are left to future FDIC rulemaking, as are the potential for increases to the assessment rates, which may become necessary to achieve the targeted level of the DIF. Future FDIC rulemaking in this regard may have a material adverse effect on the Corporation.

The Corporation may incur fines, penalties and other negative consequences from regulatory violations, possibly even inadvertent or unintentional violations.

The Corporation maintains systems and procedures designed to ensure that it complies with applicable laws and regulations. However, some legal or regulatory frameworks provide for the imposition of fines or penalties for noncompliance even though the noncompliance was inadvertent or unintentional and even though there was in place at the time systems and procedures designed to ensure compliance. For example, the Corporation is subject to regulations issued by the Office of Foreign Assets Control (OFAC) that prohibit financial institutions from participating in the transfer of property belonging to the governments of certain foreign countries and designated nationals of those countries. OFAC may impose penalties for inadvertent or unintentional violations even if reasonable processes are in place to prevent the violations. There may be other negative consequences resulting from a finding of noncompliance, including restrictions on certain activities. Such a finding may also damage the Corporation's reputation (see below) and could restrict the ability of institutional investment managers to invest in the Corporation's securities.

The heightened, industry-wide attention associated with the processing of residential mortgage foreclosures may adversely affect the Corporation's business.
As a result of the economic downturn which began in December, 2007, larger banks and mortgage servicing companies have been challenged with processing tens of thousands of foreclosures nationwide. In late 2010, the media began reporting on possible processing errors and documentation problems in mortgage foreclosures at several of the nation's largest banks and mortgage servicing businesses. It was reported that, in some foreclosures, the procedural steps (which often vary by state and in some cases by local jurisdictions within a state) required to complete a

foreclosure had not been followed. As a result, there were questions concerning the validity of some foreclosures. Since 2010 the foreclosure procedures used by banks and servicing companies have continued to come under scrutiny by consumer advocates, attorneys representing borrowers, state Attorney Generals and banking regulators.

As a financial institution, the Corporation offers a variety of residential mortgage loan products. A majority of the mortgage loans originated by the Corporation are made in the Corporation's five-state market. The Corporation also services loans owned by investors in accordance with the investors' guidelines. A small percentage of the Corporation's residential mortgage borrowers default on their mortgage loans. When this occurs, the Corporation attempts to resolve the default in a way that provides the greatest return to the Corporation or is in accordance with investor guidelines; typically, options are pursued that allow the borrower to remain the owner of their home. However, when these efforts are not successful, it becomes necessary for the Corporation to foreclose on the loan. The Corporation analyzes whether foreclosure is necessary on a case-by-case basis and the number of residential foreclosures undertaken by the Corporation is not substantial. The Corporation initiated approximately 400 and 300 residential foreclosure actions during 2010 and 2011, respectively, for residential loans the Corporation owned or serviced for investors.

Although the number of foreclosures undertaken by the Corporation on residential mortgage loans in its portfolio or that the Corporation services for others is substantially less than those of larger banks and mortgage servicers, the Corporation has received inquiries from banking regulators, title insurance companies and others regarding its foreclosure procedures. As a result of these inquiries and the publicity surrounding the mortgage foreclosure area nationally, the Corporation has reviewed the requirements for foreclosures in each of the states where most of its foreclosures occur and its own foreclosure procedures. The Corporation has also consulted with the law firms it uses to undertake foreclosures in each of the states in its primary markets and in other states where it has substantial mortgage lending activities regarding foreclosure procedures.

In addition, in 2011, banking regulators required financial institutions to perform a self-assessment of their foreclosure management process to identify any weaknesses in their processes and to determine whether these weaknesses resulted in any financial harm to borrowers. The Corporation performed such a self-assessment in 2011. The Corporation does not expect any deficiencies that it has discovered, or which it might discover in the future, as a result of these self-assessments and consultations will have a material impact on the financial position or results of operations of the Corporation. The Corporation will continue to monitor its foreclosure procedures, and other areas of the foreclosure process, as well as future legal and regulatory developments concerning mortgage foreclosure processes in general.

The Corporation's framework for managing risks may not be effective in mitigating risk and loss to the Corporation.

The Corporation's risk management framework seeks to mitigate risk and loss. The Corporation has established processes and procedures intended to identify, measure, monitor, report and analyze the types of risk to which the Corporation is subject, including liquidity risk, credit risk, market risk and reputational risk, among others. However, as with any risk management framework, there are inherent limitations to the Corporation's risk management strategies and there may exist, or develop in the future, risks that the Corporation has not anticipated or identified. If the Corporation's risk management framework proves to be ineffective, the Corporation could suffer unexpected losses and could be materially adversely affected.

Negative publicity could damage the Corporation's reputation.

Reputation risk, or the risk to the Corporation's earnings and capital from negative public opinion, is inherent in the Corporation's business. Negative public opinion could adversely affect the Corporation's ability to keep and attract customers and expose it to adverse legal and regulatory consequences. Negative public opinion could result from the Corporation's actual or alleged conduct in any number of activities, including lending practices, corporate governance, regulatory, compliance, mergers and acquisitions, and disclosure, sharing or inadequate protection of customer information and from actions taken by government regulators and community organizations in response to that conduct. Because the Corporation conducts the majority of its businesses under the “Fulton” brand, negative public opinion about one business could affect the Corporation's other businesses.

Loss of, or failure to adequately safeguard, confidential or proprietary information may adversely affect the Corporation's operations, net income or reputation.

The Corporation regularly collects, processes, transmits and stores significant amounts of confidential information regarding its customers, employees and others. This information is necessary for the conduct of the Corporation's business activities, including the ongoing maintenance of deposit, loan, investment management and other account relationships for the Corporation's customers, and receiving instructions and affecting transactions for those customers and other users of the Corporation's products and services. In addition to confidential information regarding its customers, employees and others, the Corporation compiles, processes, transmits and stores proprietary, non-public information concerning its own business, operations, plans and strategies. In some cases, this confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on behalf of the Corporation.

Information security risks have generally increased in recent years because of the proliferation of new technologies and the increased sophistication and activities of perpetrators of cyber-attacks. A failure in or breach of the Corporation's operational or information security systems, or those of the Corporation's third-party service providers, as a result of cyber-attacks or information security breaches or due to employee error, malfeasance or other disruptions could adversely affect our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and/or cause losses. As a result, cyber security and the continued development and enhancement of the controls and processes designed to protect the Corporation's systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for the Corporation.

If this confidential or proprietary information were to be mishandled, misused or lost the Corporation could be exposed to significant regulatory consequences, reputational damage, civil litigation and financial loss. Mishandling, misuse or loss of this confidential or proprietary information could occur, for example, if the confidential or proprietary information were erroneously provided to parties who are not permitted to have the information, either by fault of the systems or employees of the Corporation, or the systems or employees of third parties which have collected, compiled, processed, transmitted or stored the information on the Corporation's behalf, where the information is intercepted or otherwise inappropriately taken by third parties or where there is a failure or breach of the network, communications or information systems which are used to collect, compile, process, transmit or store the information.

Although the Corporation employs a variety of physical, procedural and technological safeguards to protect this confidential and proprietary information from mishandling, misuse or loss, these safeguards do not provide absolute assurance that mishandling, misuse or loss of the information will not occur, and that if mishandling, misuse or loss of the information did occur, those events will be promptly detected and addressed. Similarly, when confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on behalf of the Corporation, the Corporation's policies and procedures require that the third party agree to maintain the confidentiality of the information, establish and maintain policies and procedures designed to preserve the confidentiality of the information, and permit the Corporation to confirm the third party's compliance with the terms of the agreement. Although the Corporation believes that it has adequate information security procedures and other safeguards in place, as information security risks and cyber threats continue to evolve, the Corporation may be required to expend additional resources to continue to enhance its information security measures and/or to investigate and remediate any information security vulnerabilities.

The Corporation will be completing a transition to a new core processing system. If the Corporation is not able to complete the transition as planned, or unanticipated events occur during the transition, the Corporation's operations, net income, or reputation could be adversely affected.

The Corporation will be transitioning to a new core processing system over the next two years. The core processing system is used to maintain customer and account records, reflect account transactions and activity, and support the Corporation's customer relationship management systems for substantially all of the Corporation's deposit and loan customers. The Corporation has assembled a team of officers and employees representing key business units and functional areas throughout the Corporation to plan and oversee the transition process. This team, working with the vendor for the core processing system and outside project management consultants, has developed a comprehensive work plan for completing the transition. The transition will be completed in several phases, with one or two of the Corporation's six subsidiary banks being transitioned to the new system in each phase. Extensive pre-transition testing of, and employee training in, processing routines and new core processing system operation will be conducted before each of the Corporation's subsidiary banks are transitioned to the new core processing system. The phased approach is expected to facilitate pre-transition system testing and employee training, reduce the potential impact of any unanticipated events that may arise during the conversion and enable the Corporation to allocate sufficient resources to both transition-related tasks and routine processing and customer service activities.

If the Corporation is not able to complete the transition to the new core processing system as expected in accordance with the work plan, or if unanticipated events occur during or following the transition, the Corporation may not be able to timely process transactions for its customers, those customers may not be able to complete transactions in or affecting their accounts that are maintained on the core processing system, or the Corporation may not be able to perform contractual and other obligations to its customers or other parties, such as payment networks in which the Corporation participates. Should any of these consequences occur, the Corporation may incur additional expense in its financial and regulatory reporting, in processing or re-processing transactions, and the Corporation may not be able to meet customer expectations for transaction processing and customer service, customers may lose confidence in the Corporation and close their accounts with the Corporation, and the Corporation may incur liability under contractual or other arrangements with customers or other parties. Any of these events, should they occur, could have a material and adverse impact on the Corporation's operations, net income, reputation or the trading price of the Corporation's common stock, as well as expose the Corporation to civil liability or regulatory sanctions.

The Corporation's business is dependent on its network and information processing systems, and, in some cases, those of the Corporation's third-party vendors, and the disruption or failure of those systems may adversely affect the Corporation's operations, net income, or reputation.

The Corporation's business activities are dependent on its ability to accurately and timely process, record and monitor a large number of transactions. If any of its financial, accounting, network or other information processing systems fail or have other significant shortcomings, the Corporation could be materially adversely affected. Third parties with which the Corporation does business could also be sources of operational risk to the Corporation, including the risk that the third parties' own network and information processing systems could fail. Any of these occurrences could materially diminish the Corporation's ability to operate one or more of the Corporation's businesses, or result in potential liability to clients, reputational damage and regulatory intervention, any of which could materially adversely affect the Corporation.

The Corporation may be subject to disruptions or failures of the Corporation's financial, accounting, network and information processing systems arising from events that are wholly or partially beyond the Corporation's control, which may include, for example, computer viruses or electrical or telecommunications outages, natural disasters, disease pandemics or other damage to property or physical assets or terrorist acts. The Corporation has developed a comprehensive emergency recovery program, which includes plans to maintain or resume operations in the event of an emergency, such as a power outage or disease pandemic, and contingency plans in the event that operations or systems cannot be resumed or restored. The emergency recovery program is periodically reviewed and updated, and components of the emergency recovery program are regularly tested and validated. The Corporation also reviews and evaluates the emergency recovery programs of vendors which provide certain third-party systems that the Corporation considers critical. While the Corporation believes the emergency recovery program and its efforts to evaluate the emergency recovery programs of certain third-party systems providers help mitigate this risk, disruptions or failures affecting any of these systems may give rise to interruption in service to customers, damage to the Corporation's reputation and loss or liability to the Corporation.

If the goodwill that the Corporation has recorded in connection with its acquisitions becomes impaired, it could have a negative impact on the Corporation's results of operations.

The Corporation has historically supplemented its internal growth with strategic acquisitions of banks, branches and other financial services companies. If the purchase price of an acquired company exceeds the fair value of the company's net assets, the excess is carried on the acquirer's balance sheet as goodwill. Companies must evaluate goodwill for impairment at least annually. A more frequent evaluation could be triggered by, for example, a broad price decline in the shares of comparable publicly traded financial institutions. Write-downs of the amount of any impairment, if necessary, are to be charged to earnings in the period in which the impairment occurs. Based on its annual goodwill impairment tests, the Corporation determined that no impairment charges were necessary in 2009, 2010 or 2011. During 2008, the Corporation recorded a $90.0 million goodwill impairment charge. As of December 31, 2011, the Corporation had $536.0 million of goodwill on its consolidated balance sheet. There can be no assurance that future evaluations of goodwill will not result in additional impairment charges.

The competition the Corporation faces is significant and may reduce the Corporation's customer base and negatively impact the Corporation's results of operations.

There is significant competition among commercial banks in the market areas served by the Corporation. In addition, as a result of the deregulation of the financial industry, the Corporation also competes with other providers of financial services such as savings and loan associations, credit unions, consumer finance companies, securities firms, insurance companies, commercial finance and leasing companies, the mutual funds industry, full service brokerage firms and discount brokerage firms, some of which are subject to less extensive regulations than the Corporation is with respect to the products and services they provide and have different cost structures. Some of the Corporation's competitors, including certain super-regional and national bank holding companies that have made acquisitions in its market area, have greater resources than the Corporation has and, as such, may have higher lending limits, lower cost of funds and may offer other services not offered by the Corporation.

The Corporation also experiences competition from a variety of institutions outside its market areas. Some of these institutions conduct business primarily over the internet and may thus be able to realize certain cost savings and offer products and services at more favorable rates and with greater convenience to the customer.

Competition may adversely affect the rates the Corporation pays on deposits and charges on loans, thereby potentially adversely affecting the Corporation's profitability. The Corporation's profitability depends upon its continued ability to successfully compete in the market areas it serves.

The Corporation's future growth and liquidity needs may require the Corporation to raise additional capital in the future, but that capital may not be available when it is needed or may be available at an excessive cost.

The Corporation is required by regulatory authorities to maintain adequate levels of capital to support its operations. The Corporation anticipates that current capital levels will satisfy regulatory requirements for the foreseeable future.

The Corporation, however, may at some point choose to raise additional capital to support its continued growth. The Corporation's ability to raise additional capital will depend, in part, on conditions in the capital markets at that time, which are outside of the Corporation's control. Accordingly, the Corporation may be unable to raise additional capital, if and when needed, on terms acceptable to the Corporation, or at all. If the Corporation cannot raise additional capital when needed, its ability to further expand operations through internal growth and acquisitions could be materially impacted. In the event of a material decrease in the Corporation's stock price, future issuances of equity securities could result in dilution of existing shareholder interests.

In addition to primary sources of liquidity in the form of principal and interest payments on outstanding loans and investments and deposits, the Corporation maintains secondary sources that provide it with additional liquidity. These secondary sources may include secured and unsecured borrowings from sources such as the Federal Reserve Bank and Federal Home Loan Bank and third-party commercial banks. The Corporation believes that it maintains a strong liquidity position and that it is well positioned to withstand current market conditions. However, market conditions have been negatively impacted by disruptions in the liquidity markets in the past and such disruptions or an adverse change in the Corporation's results of operations or financial condition could, in the future, have a negative impact on secondary sources of liquidity.

The Corporation is a holding company and relies on dividends from its subsidiaries for substantially all of its revenue and its ability to make dividends, distributions and other payments.

The Corporation is a separate and distinct legal entity from its banking and nonbanking subsidiaries, and depends on the payment of dividends from its subsidiaries, principally its banking subsidiaries, for substantially all of its revenues. As a result, the Corporation's ability to make dividend payments on its common stock depends primarily on certain federal and state regulatory considerations and the receipt of dividends and other distributions from its subsidiaries. There are various regulatory and prudential supervisory restrictions, which may change from time to time, that impact the ability of its banking subsidiaries to pay dividends or make other payments to it. For additional information regarding the regulatory restrictions on the Corporation and its subsidiaries, see “Item 1 Business - Supervision and Regulation.”

If, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice, such authority may require, after notice and hearing, that such bank cease and desist from such practice. Depending on the financial condition and results of operations of the Corporation's banking subsidiaries, the applicable regulatory authority might deem the Corporation to be engaged in an unsafe or unsound practice if its banking subsidiaries were to pay dividends. The Federal Reserve Board and the Office of the Comptroller of the Currency have issued policy statements generally requiring insured banks and bank holding companies only to pay dividends out of current operating earnings. In 2009, the Federal Reserve Board released a supervisory letter advising bank holding companies, among other things, that as a general matter a bank holding company should inform its Federal Reserve Bank and should eliminate, defer or significantly reduce its dividends if (1) the bank holding company's net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends, (2) the bank holding company's prospective rate of earnings is not consistent with the bank holding company's capital needs and overall current and prospective financial condition, or (3) the bank holding company will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

Anti-takeover provisions could negatively impact the Corporation's shareholders.

Provisions of Pennsylvania law and of the Corporation's Amended and Restated Articles of Incorporation and Bylaws could make it more difficult for a third party to acquire control of the Corporation or have the effect of discouraging a third party from attempting to acquire control of the Corporation. The Corporation's Amended and Restated Articles of Incorporation and Bylaws include certain provisions which may be considered to be “anti-takeover” in nature because they may have the effect of discouraging or making more difficult the acquisition of control over the Corporation by means of a hostile tender offer, exchange offer, proxy contest or similar transaction. These provisions are intended to protect the Corporation's shareholders by providing a measure of assurance that the Corporation's shareholders will be treated fairly in the event of an unsolicited takeover bid and by preventing a successful takeover bidder from exercising its voting control to the detriment of the other shareholders. However, the anti-takeover provisions set forth in the Corporation's Amended and Restated Articles of Incorporation and Bylaws, taken as a whole, may discourage a hostile tender offer, exchange offer, proxy solicitation or similar transaction relating to the Corporation's common stock. To the extent that these provisions actually discourage such a transaction, holders of the Corporation's common stock may not have an opportunity to dispose of part or all of their stock at a higher price than that prevailing in the market. In addition, some of these provisions make it more difficult to remove, and thereby may serve to entrench, the Corporation's incumbent directors and officers, even if their removal would be regarded by some shareholders as desirable.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table summarizes the Corporation’s full-service branch properties, by subsidiary bank, as of December 31, 2011. Remote service facilities (mainly stand-alone automated teller machines) are excluded.

| Subsidiary Bank | Owned | Leased | Total Branches |
|---|---|---|---|
| Fulton Bank, N.A. | 46 | 72 | 118 |
| Fulton Bank of New Jersey | 39 | 32 | 71 |
| The Columbia Bank | 9 | 31 | 40 |
| Lafayette Ambassador Bank | 5 | 18 | 23 |
| FNB Bank, N.A. | 6 | 2 | 8 |
| Swineford National Bank | 5 | 2 | 7 |
| Total | 110 | 157 | 267 |

The following table summarizes the Corporation’s other significant administrative properties. Banking subsidiaries also maintain administrative offices at their respective main banking branches, which are included within the preceding table.

| Entity | Property | Location | Owned/Leased |
|---|---|---|---|
| Fulton Bank, N.A./Fulton Financial Corporation | Corporate Headquarters | Lancaster, PA | (1) |
| Fulton Financial Corporation | Operations Center | East Petersburg, PA | Owned |
| Fulton Bank, N.A. | Operations Center | Mantua, NJ | Owned |
| Lafayette Ambassador Bank | Operations Center | Bethlehem, PA | Owned (2) |

(1) Includes approximately 100,000 square feet which is owned by an independent third-party who financed the construction through a loan from Fulton Bank, N.A. The Corporation is leasing this space from the third-party in an arrangement accounted for as a capital lease. The lease term expires in 2027. The Corporation owns the remainder of the Corporate Headquarters location. This property also includes a Fulton Bank, N.A. branch, which is included in the preceding table.

(2) Property sold in January 2012.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock

As of December 31, 2011, the Corporation had 200.2 million shares of $2.50 par value common stock outstanding held by approximately 41,000 holders of record. The closing price per share of the Corporation's common stock on December 31, 2011 was $9.81. The common stock of the Corporation is traded on the Global Select Market of The NASDAQ Stock Market under the symbol FULT.

The following table presents the quarterly high and low prices of the Corporation's common stock and per common share cash dividends declared for each of the quarterly periods in 2011 and 2010.

| | Price Range | | Per Common |
|---|---|---|---|
| | High | Low | Share Dividend |
| 2011 | | | |
| First Quarter | $11.54 | $9.81 | $0.04 |
| Second Quarter | 11.91 | 10.17 | 0.05 |
| Third Quarter | 11.27 | 7.44 | 0.05 |
| Fourth Quarter | 10.24 | 7.18 | 0.06 |
| 2010 | | | |
| First Quarter | $10.57 | $8.33 | $0.03 |
| Second Quarter | 11.75 | 9.30 | 0.03 |
| Third Quarter | 10.56 | 8.15 | 0.03 |
| Fourth Quarter | 10.64 | 8.51 | 0.03 |

Restrictions on the Payments of Dividends

The Corporation is a separate and distinct legal entity from its banking and nonbanking subsidiaries, and depends on the payment of dividends from its subsidiaries, principally its banking subsidiaries, for substantially all of its revenues. As a result, the Corporation's ability to make dividend payments on its common stock depends primarily on certain federal and state regulatory considerations and the receipt of dividends and other distributions from its subsidiaries. There are various regulatory and prudential supervisory restrictions, which may change from time to time, that impact the ability of its banking subsidiaries to pay dividends or make other payments to it. For additional information regarding the regulatory restrictions applicable to the Corporation and its subsidiaries, see "Part I - Item 1 Business - Supervision and Regulation," "Part I - Item 1A Risk Factors - The Corporation is a holding company and relies on dividends from its subsidiaries for substantially all of its revenue and its ability to make dividends, distributions and other payments" and "Part II - Item 8 - Notes to Consolidated Financial Statements - Note J - Regulatory Matters" of this Report.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information about options outstanding under the Corporation's 2004 Stock Option and Compensation Plan and the number of securities remaining available for future issuance under the Corporation's 2004 Stock Option and Compensation Plan, 2011 Directors' Equity Participation Plan and Employee Stock Purchase Plan as of December 31, 2011:

| Plan Category | Equity compensation plans approved by security holders | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column) (1) |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Equity compensation plans approved by security holders | 6,382,158 | $ 13.27 | 13,573,705 |
| Equity compensation plans not approved by security holders | — | N/A | — |
| Total | 6,382,158 | $ 13.27 | 13,573,705 |

(1) Consists of 12,443,879 shares that may be awarded under the 2004 Stock Option and Compensation Plan, 488,843 shares that may be awarded under the 2011 Directors' Equity Participation Plan and 640,983 of shares that may be purchased under the Employee Stock Purchase Plan. Excludes accrued purchase rights under the Employee Stock Purchase Plan as of December 31, 2011 as the number of shares to be purchased is indeterminable until the time shares are issued.

Performance Graph

The graph below shows cumulative investment returns to shareholders based on the assumptions that (A) an investment of $100.00 was made on December 31, 2006, in each of the following: (i) Fulton Financial Corporation common stock; (ii) the stock of all U. S. companies traded on The NASDAQ Stock Market; (iii) common stock of the peer group approved by the Board of Directors on September 21, 2004 (the 2010 Peer Group) consisting of bank and financial holding companies located throughout the United States with assets between $6-20 billion which were not a party to a merger agreement as of the end of the period and (iv) common stock of the peer group approved by the Board of Directors on September 21, 2010 (the 2011 Peer Group) consisting of bank and financial holding companies located throughout the United States selected based on their asset size, loan distribution, revenue composition, geographic focus, business model, ownership and market capitalization and which were not a party to a merger agreement as of the end of the period and (B) all dividends were reinvested in such securities over the past five years. The graph is not indicative of future price performance.

In 2010, the Human Resources Committee of the Board of Directors made a decision, with the aid of a third-party consultant, to review, and based on that review, to update the Corporation's peer group to the 2011 Peer Group.

The following table presents a comparison of the 2011 Peer Group to the 2010 Peer Group:

| Peer Group Member (Stock Symbol) | 2011 Peer Group | 2010 Peer Group |
|---|---|---|
| Associated Banc-Corp (ASBC) | X | X |
| BancorpSouth, Inc. (BXS) | X | X |
| Bank of Hawaii Corporation (BOH) | | X |
| BOK Financial Corporation (BOKF) | X | X |
| Citizens Republic Bancorp (CRBC) | | X |
| City National Corporation (CYN) | X | X |
| Commerce Bancshares, Inc. (CBSH) | X | X |
| Cullen/Frost Bankers, Inc. (CFR) | X | X |
| First Citizens BancShares, Inc. (FCNCA) | | X |
| First Horizon National Corporation (FHN) | X | |
| FirstMerit Corporation (FMER) | X | X |
| First Midwest Bancorp, Inc. (FMBI) | | X |
| First Niagara Financial Group, Inc. (FNFG) | X | |
| International Bancshares Corporation (IBOC) | X | X |
| Old National Bancorp (ONB) | | X |
| People's United Financial, Inc. (PBCT) | X | |
| Susquehanna Bancshares, Inc. (SUSQ) | X | X |
| Synovus Financial Corp. (SNV) | X | |
| TCF Financial Corporation (TCB) | X | X |
| The South Financial Group, Inc. (TSFG) | | X |
| Trustmark Corporation (TRMK) | | X |
| UMB Financial Corporation (UMBF) | X | X |
| United Bankshares, Inc. (UBSI) | | X |
| Valley National Bancorp (VLY) | X | X |
| Webster Financial Corp. (WBS) | X | |

The graph below is furnished under this Part II, Item 5 of this Form 10-K and shall not be deemed to be “soliciting material” or to be “filed” with the Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act of 1934, as amended.

| | Year Ending December 31 | | | | | |
|---|---|---|---|---|---|---|
| Index | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| Fulton Financial Corporation | 100.00 | 70.15 | 63.38 | 58.49 | 70.21 | 68.00 |
| NASDAQ Composite | 100.00 | 110.66 | 66.42 | 96.54 | 114.06 | 113.16 |
| Fulton Financial 2010 Peer Group | 100.00 | 83.42 | 78.97 | 70.75 | 80.95 | 73.60 |
| Fulton Financial 2011 Peer Group | 100.00 | 80.25 | 75.84 | 67.36 | 74.21 | 62.87 |

Issuer Purchases of Equity Securities

Not applicable.

Item 6. Selected Financial Data
5-YEAR CONSOLIDATED SUMMARY OF FINANCIAL RESULTS
(dollars in thousands, except per-share data)

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| SUMMARY OF OPERATIONS | | | | | |
| Interest income | $693,698 | $745,373 | $786,467 | $867,494 | $939,577 |
| Interest expense | 133,538 | 186,627 | 265,513 | 343,346 | 450,833 |
| Net interest income | 560,160 | 558,746 | 520,954 | 524,148 | 488,744 |
| Provision for credit losses | 135,000 | 160,000 | 190,020 | 119,626 | 15,063 |
| Investment securities gains (losses), net | 4,561 | 701 | 1,079 | (58,241) | 1,740 |
| Other income, excluding investment securities gains (losses) | 183,166 | 181,619 | 172,856 | 157,549 | 147,954 |
| Gain on sale of credit card portfolio | — | — | — | 13,910 | — |
| Other expenses | 416,476 | 408,325 | 415,537 | 408,787 | 407,125 |
| Goodwill impairment | — | — | — | 90,000 | — |
| Income before income taxes | 196,411 | 172,741 | 89,332 | 18,953 | 216,250 |
| Income taxes | 50,838 | 44,409 | 15,408 | 24,570 | 63,532 |
| Net income (loss) | 145,573 | 128,332 | 73,924 | (5,617) | 152,718 |
| Preferred stock dividends and discount accretion | — | (16,303) | (20,169) | (463) | — |
| Net income (loss) available to common shareholders | $145,573 | $112,029 | $53,755 | $(6,080) | $152,718 |
| PER COMMON SHARE | | | | | |
| Net income (loss) (basic) | $0.73 | $0.59 | $0.31 | $(0.03) | $0.88 |
| Net income (loss) (diluted) | 0.73 | 0.59 | 0.31 | (0.03) | 0.88 |
| Cash dividends | 0.20 | 0.12 | 0.12 | 0.60 | 0.60 |
| RATIOS | | | | | |
| Return on average assets | 0.90% | 0.78% | 0.45% | (0.04)% | 1.01% |
| Return on average common shareholders’ equity | 7.45 | 6.29 | 3.54 | (0.38) | 9.98 |
| Return on average tangible common shareholders’ equity (1) | 10.54 | 9.39 | 5.96 | 9.33 | 18.16 |
| Net interest margin | 3.90 | 3.80 | 3.52 | 3.70 | 3.66 |
| Efficiency ratio | 54.28 | 53.33 | 57.77 | 56.44 | 61.29 |
| Ending tangible common equity to tangible assets | 9.15 | 8.47 | 6.30 | 5.97 | 6.03 |
| Dividend payout ratio | 27.40 | 20.34 | 38.70 | N/M | 68.00 |
| PERIOD-END BALANCES | | | | | |
| Total assets | $16,370,508 | $16,275,254 | $16,635,635 | $16,185,106 | $15,923,098 |
| Investment securities | 2,679,967 | 2,861,484 | 3,267,086 | 2,724,841 | 3,153,552 |
| Loans, net of unearned income | 11,968,970 | 11,933,307 | 11,972,424 | 12,042,620 | 11,204,424 |
| Deposits | 12,525,739 | 12,388,581 | 12,097,914 | 10,551,916 | 10,105,445 |
| Short-term borrowings | 597,033 | 674,077 | 868,940 | 1,762,770 | 2,383,944 |
| Federal Home Loan Bank advances and long-term debt | 1,040,149 | 1,119,450 | 1,540,773 | 1,787,797 | 1,642,133 |
| Shareholders’ equity | 1,992,539 | 1,880,389 | 1,936,482 | 1,859,647 | 1,574,920 |
| AVERAGE BALANCES | | | | | |
| Total assets | $16,102,581 | $16,426,459 | $16,480,673 | $15,976,871 | $15,090,458 |
| Investment securities | 2,680,229 | 2,899,925 | 3,137,708 | 2,924,340 | 2,843,478 |

| | | | | | |
|---|---|---|---|---|---|
| Loans, net of unearned income | 11,904,529 | 11,958,435 | 11,975,899 | 11,595,243 | 10,736,566 |
| Deposits | 12,447,551 | 12,343,844 | 11,637,125 | 10,016,528 | 10,222,594 |
| Short-term borrowings | 495,791 | 587,602 | 1,043,279 | 2,336,526 | 1,574,495 |
| Federal Home Loan Bank advances and long-term debt | 1,034,475 | 1,326,449 | 1,712,630 | 1,822,115 | 1,579,527 |
| Shareholders’ equity | 1,953,396 | 1,977,166 | 1,889,561 | 1,609,828 | 1,530,613 |

N/M – Not meaningful.

(1) Net income (loss) available to common shareholders, as adjusted for intangible amortization (net of tax) and goodwill impairment charges, divided by average common shareholders’ equity, net of goodwill and intangible assets.

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Item 7. 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 financial holding company registered under the Bank Holding Company Act and incorporated under the laws of the Commonwealth of Pennsylvania in 1982, and its wholly owned subsidiaries. Management’s Discussion should be read in conjunction with the consolidated financial statements and other financial information presented in this report.

FORWARD-LOOKING STATEMENTS
The Corporation has made, and may continue to make, certain forward-looking statements with respect to its financial condition and results of operations. Many factors could affect future financial results including, without limitation: the impact of adverse changes in the economy and real estate markets; increases in non-performing assets which may reduce the level of earning assets and require the Corporation to increase the allowance for credit losses, charge-off loans and to incur elevated collection and carrying costs related to such non-performing assets; acquisition and growth strategies; market risk; changes or adverse developments in political or regulatory conditions; a disruption in, or abnormal functioning of, credit and other markets, including the lack of or reduced access to markets for mortgages and other asset-backed securities and for commercial paper and other short-term borrowings; changes in the levels of, or methodology for determining, FDIC deposit insurance premiums and assessments; the effect of competition and interest rates on net interest margin and net interest income; investment strategy and other income growth; investment securities gains and losses; declines in the value of securities which may result in charges to earnings; changes in rates of deposit and loan growth or a decline in loans originated; relative balances of 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. Do not unduly rely on forward-looking statements. Forward-looking statements can be identified by the use of words such as “may,” “should,” “will,” “could,” “estimates,” “predicts,” “potential,” “continue,” “anticipates,” “believes,” “plans,” “expects,” “future,” “intend expressions which are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks and uncertainties, some of which are beyond the Corporation’s control and ability to predict, that could cause actual results to differ materially from those expressed in the forward-looking statements. The Corporation undertakes no obligation, other than as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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) 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 gains on 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:

| | 2011 | 2010 |
|---|---|---|
| Income before income taxes (in thousands) | $196,411 | $172,741 |
| Net income (in thousands) | $145,573 | $128,332 |
| Net income available to common shareholders (in thousands) | $145,573 | $112,029 |
| Diluted net income per common share (1) | $0.73 | $0.59 |
| Return on average assets | 0.90 % | 0.78 % |
| Return on average common equity (2) | 7.45 % | 6.29 % |
| Return on average tangible common equity (3) | 10.54 % | 9.39 % |
| Net interest margin (4) | 3.90 % | 3.80 % |
| Efficiency ratio | 54.28 % | 53.33 % |
| Non-performing assets to total assets | 1.94 % | 2.22 % |
| Net charge-offs to average loans | 1.28 % | 1.19 % |

(1) Net income available to common shareholders divided by diluted weighted average common shares outstanding.
(2) Net income available to common shareholders divided by average common shareholders’ equity.
(3) Net income available to common shareholders, as adjusted for intangible amortization (net of tax), divided by average common shareholders’ equity, net of goodwill and intangible assets.
(4) 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.

2011 was characterized by improving, but still challenging, general economic conditions, a continuation of the low interest rate environment, and increasing regulatory and compliance changes. These factors, along with the Corporation's efforts to control discretionary spending in light of both current and future challenges, resulted in positive earnings growth and an improved capital position.

The following is a summary of the significant factors impacting the Corporation's financial performance in 2011:

Improved Asset Quality - The Corporation's provision for credit losses decreased $25.0 million, or 15.6%, to $135.0 million in 2011 from $160.0 million in 2010 due to improved credit quality metrics and reduced allocation needs. General market conditions stabilized in the Corporation's Pennsylvania, Maryland, Northern Delaware and Virginia markets, but remained more challenging in its New Jersey market. Despite improving economic conditions, many of the Corporation's borrowers remain stressed, impacting both the pace of asset quality improvement and the growth in loans.

Non-performing assets decreased $44.4 million, or 12.3%, in 2011 compared to 2010 due to the continued resolution of distressed assets, including the sale of $34.8 million of non-performing residential mortgages and home equity loans in December 2011 to a third-party investor. Non-performing assets at December 31, 2011 were at their lowest level since March 31, 2010 and delinquencies were at their lowest level since March 31, 2009. While net charge-offs increased, additional provisions for credit losses were not needed as allowance allocations were considered to be sufficient.

Growth in Net Interest Income and an Improved Net Interest Margin - Net interest income increased $1.4 million, to $560.2 million in 2011 from $558.7 million in 2010. The net interest margin increased 10 basis points, to 3.90% in 2011 as compared to 3.80% in 2010. The increases in both net interest income and net interest margin were primarily attributable to decreases in funding costs as interest rates remained at historically low levels throughout the year. Partially offsetting the decrease in funding costs was a decline in yields on interest-earning assets of 24 basis points, or 4.8%, and a $331.5 million, or 2.2%, decrease in average interest-earning assets.

While the net interest margin improved, growing earning assets remained a challenge. As a result, the positive impact to net interest income resulting from the increase in the margin was largely offset by the effect of the decrease in average interest-earning assets.

Other Income Growth, Despite Regulatory Headwinds - Total other income, excluding gains on sales of investment securities, increased $1.5 million, or 0.9%. During 2011, the Corporation was able to achieve moderate growth in total other income in spite of regulatory changes which had a negative effect on certain fee categories, primarily overdraft fees and interchange income on debit card transactions. Improvements in other fee categories that were driven by changes in fee structures and increased transaction volumes mitigated the impact of these changes.

Total other income was also affected by a $3.6 million, or 12.4%, decrease in mortgage banking income resulting from a $3.3 million increase to mortgage banking income in 2010 for a correction in the methodology for determining the fair value of

commitments to originate fixed rate mortgages held for sale.
Moderate Other Expense Increase - Other expenses increased $8.2 million, or 2.0%. The Corporation continued to experience upward pressure on its expenses as a result of continuing loan workout efforts and expanding regulatory and compliance requirements. Such increases were mitigated to a degree through continued control of discretionary expenses, such as marketing expense, which decreased $1.5 million, or 13.4%, in 2011.
The efficiency ratio remained strong at 54.3% in 2011, although this also represented a moderate increase from 2010. The most significant variances were seen in salaries and employee benefits ($10.9 million, or 5.1%, increase) and FDIC insurance expense ($5.2 million, or 26.6%, decrease).
As a result of the increase in earnings outpacing the growth in the balance sheet, the Corporation's capital position improved in 2011. Total shareholders' equity increased $112.2 million, or 6.0%, to $2.0 billion at December 31, 2011. Regulatory capital also grew, as shown by an increase in the total risk-based capital ratio to 15.2% at December 31, 2011, as compared to 14.2% in the prior year. With the improvements in both capital levels and earnings, the Corporation was able to increase its shareholder dividends during 2011. The total dividend per share was $0.20 in 2011 as compared to $0.12 in 2010.
In 2012, the Corporation will continue to focus on increasing market share, prudently deploying capital, reducing credit costs and providing superior customer service. In an effort to improve both its operating efficiency and customer service, the Corporation will be converting and upgrading its core banking systems over the next two years. While there will be moderate cost increases associated with the implementation of these new systems, the Corporation will benefit from the ability to expand product offerings, enhance delivery channels and improve customer service.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the most significant component of the Corporation's net income. The Corporation manages the risk associated with changes in interest rates through the techniques described in the "Market Risk" section of Management's Discussion. Fully taxable-equivalent (FTE) net interest income increased $2.0 million, or 0.3%, to $576.2 million in 2011 due to an increase in the net interest margin. Net interest margin increased 10 basis points, or 2.6%, from 3.80% in 2010 to 3.90% in 2011. The increase in net interest margin was the result of a 39 basis point, or 25.3%, decrease in funding costs, offset by 24 basis point, or 4.8%, decrease in yields on interest-earning assets.

The following table provides a comparative average balance sheet and net interest income analysis for 2011 compared to 2010 and 2009. 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 tax-equivalent amounts.

| (dollars in thousands) | 2011 | | | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average Balance | Interest (1) | Yield/ Rate | Average Balance | Interest (1) | Yield/ Rate | Average Balance | Interest (1) | Yield/ Rate |
| ASSETS | | | | | | | | | |
| Interest-earning assets: | | | | | | | | | |
| Loans, net of unearned income (2) | $11,904,529 | $605,671 | 5.09% | $11,958,435 | $637,438 | 5.33% | $11,975,899 | $655,384 | 5.47% |
| Taxable investment securities (3) | 2,223,376 | 80,184 | 3.61 | 2,403,206 | 96,237 | 4.00 | 2,548,810 | 112,945 | 4.43 |
| Tax-exempt investment securities (3) | 330,087 | 18,521 | 5.61 | 357,427 | 20,513 | 5.74 | 451,828 | 25,180 | 5.57 |
| Equity securities (3) | 126,766 | 3,078 | 2.43 | 139,292 | 3,103 | 2.23 | 137,070 | 2,917 | 2.13 |
| Total investment securities | 2,680,229 | 101,783 | 3.80 | 2,899,925 | 119,853 | 4.13 | 3,137,708 | 141,042 | 4.50 |
| Loans held for sale | 43,470 | 1,958 | 4.50 | 69,157 | 3,088 | 4.47 | 105,067 | 5,390 | 5.13 |
| Other interest-earning assets | 160,664 | 358 | 0.22 | 192,888 | 505 | 0.26 | 21,255 | 196 | 0.92 |
| Total interest-earning assets | 14,788,892 | 709,770 | 4.80 | 15,120,405 | 760,884 | 5.04 | 15,239,929 | 802,012 | 5.27 |
| Noninterest-earning assets: | | | | | | | | | |
| Cash and due from banks | 274,527 | | | 268,615 | | | 305,410 | | |
| Premises and equipment | 207,081 | | | 204,316 | | | 203,865 | | |
| Other assets (3) | 1,108,359 | | | 1,114,678 | | | 952,597 | | |
| Less: Allowance for loan losses | (276,278) | | | (281,555) | | | (221,128) | | |
| Total Assets | $16,102,581 | | | $16,426,459 | | | $16,480,673 | | |
| LIABILITIES AND EQUITY | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Interest-bearing liabilities: | | | | | | | | | |
| Demand deposits | $2,391,043 | $5,312 | 0.22% | $2,099,026 | $7,341 | 0.35% | $1,857,081 | $7,995 | 0.43% |
| Savings deposits | 3,359,109 | 11,536 | 0.34 | 3,124,157 | 19,889 | 0.63 | 2,425,864 | 19,487 | 0.80 |
| Time deposits | 4,297,106 | 66,235 | 1.54 | 5,016,645 | 95,129 | 1.90 | 5,507,090 | 153,344 | 2.78 |
| Total interest-bearing deposits | 10,047,258 | 83,083 | 0.83 | 10,239,828 | 122,359 | 1.19 | 9,790,035 | 180,826 | 1.85 |
| Short-term borrowings | 495,791 | 746 | 0.15 | 587,602 | 1,455 | 0.25 | 1,043,279 | 3,777 | 0.36 |
| Long-term debt | 1,034,475 | 49,709 | 4.81 | 1,326,449 | 62,813 | 4.74 | 1,712,630 | 80,910 | 4.72 |
| Total interest-bearing liabilities | 11,577,524 | 133,538 | 1.15 | 12,153,879 | 186,627 | 1.54 | 12,545,944 | 265,513 | 2.12 |
| Noninterest-bearing liabilities: | | | | | | | | | |
| Demand deposits | 2,400,293 | | | 2,104,016 | | | 1,847,090 | | |
| Other | 171,368 | | | 191,398 | | | 198,078 | | |
| Total Liabilities | 14,149,185 | | | 14,449,293 | | | 14,591,112 | | |
| Shareholders’ equity | 1,953,396 | | | 1,977,166 | | | 1,889,561 | | |
| Total Liabilities and Shareholders' Equity | $16,102,581 | | | $16,426,459 | | | $16,480,673 | | |
| Net interest income/net interest margin (FTE) | | 576,232 | 3.90% | | 574,257 | 3.80% | | 536,499 | 3.52% |
| Tax equivalent adjustment | | (16,072) | | | (15,511) | | | (15,545) | |
| Net interest income | | $560,160 | | | $558,746 | | | $520,954 | |

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

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The following table sets forth a summary of changes in FTE interest income and expense resulting from changes in average balances (volumes) and changes in rates:

| | 2011 vs. 2010 Increase (decrease) due To change in | | | 2010 vs. 2009 Increase (decrease) due To change in | | |
|---|---|---|---|---|---|---|
| | Volume | Rate | Net | Volume | Rate | Net |
| | | | (in thousands) | | | |
| Interest income on: | | | | | | |
| Loans and leases | $(2,861) | $(28,906) | $(31,767) | $(955) | $(16,991) | $(17,946) |
| Taxable investment securities | (6,894) | (9,159) | (16,053) | (6,221) | (10,487) | (16,708) |
| Tax-exempt investment securities | (1,542) | (450) | (1,992) | (5,398) | 731 | (4,667) |
| Equity securities | (292) | 267 | (25) | 48 | 138 | 186 |
| Loans held for sale | (1,157) | 27 | (1,130) | (1,669) | (633) | (2,302) |
| Other interest-earning assets | (78) | (69) | (147) | 541 | (232) | 309 |
| Total interest-earning assets | $(12,824) | $(38,290) | $(51,114) | $(13,654) | $(27,474) | $(41,128) |
| Interest expense on: | | | | | | |
| Demand deposits | $918 | $(2,947) | $(2,029) | $962 | $(1,616) | $(654) |
| Savings deposits | 1,332 | (9,685) | (8,353) | 5,087 | (4,685) | 402 |
| Time deposits | (12,536) | (16,358) | (28,894) | (12,705) | (45,510) | (58,215) |
| Short-term borrowings | (202) | (507) | (709) | (1,347) | (975) | (2,322) |
| Long-term debt | (14,017) | 913 | (13,104) | (18,287) | 190 | (18,097) |
| Total interest-bearing liabilities | $(24,505) | $(28,584) | $(53,089) | $(26,290) | $(52,596) | $(78,886) |

Note: Changes which are partially attributable to both volume and rate are allocated to the volume and rate components presented above based on the percentage of the direct changes that are attributable to each component.

2011 vs. 2010

FTE interest income decreased $51.1 million, or 6.7%. A 24 basis point, or 4.8%, decrease in average rates resulted in a $38.3 million decrease in interest income, while a $331.5 million, or 2.2%, decrease in average interest-earning assets resulted in a $12.8 million decrease in interest income.

Average loans decreased $53.9 million as a result of generally weak demand due to economic conditions. The following table summarizes the changes in average loans by type:

| | 2011 | 2010 | Increase (decrease) $ | % |
|---|---|---|---|---|
| | (dollars in thousands) | | | |
| Real estate - commercial mortgage | $4,458,205 | $4,333,371 | $124,834 | 2.9 % |
| Commercial - industrial, financial and agricultural | 3,681,321 | 3,681,692 | (371) | — |
| Real estate - home equity | 1,627,308 | 1,642,999 | (15,691) | (1.0) |
| Real estate - residential mortgage | 1,036,474 | 977,909 | 58,565 | 6.0 |
| Real estate - construction | 700,071 | 889,267 | (189,196) | (21.3) |
| Consumer | 332,613 | 363,066 | (30,453) | (8.4) |
| Leasing and other | 68,537 | 70,131 | (1,594) | (2.3) |
| Total | $11,904,529 | $11,958,435 | $(53,906) | (0.5)% |

Geographically, the $124.8 million, or 2.9%, increase in commercial mortgages was within the Corporation’s Pennsylvania ($101.0 million, or 4.5%), New Jersey ($18.4 million, or 1.5%) and Maryland ($6.0 million, or 1.5%) markets, offset by a decline in the Virginia market ($5.2 million, or 1.5%).

The $58.6 million, or 6.0%, increase in residential mortgages was largely due to the Corporation’s retention in portfolio of certain 10 and 15 year fixed rate mortgages and certain adjustable rate mortgages to partially mitigate the impact of decreases in average interest-earning assets. See further discussion regarding the impact of retaining these mortgages under the heading "Other Income and Expenses," below.

The $189.2 million, or 21.3%, decrease in construction loans was a result of charge-offs and repayments exceeding originations, in addition to the conversion of commercial construction loans to permanent mortgages. Significant growth in construction loans is not likely to occur until housing and overall commercial real estate markets show greater stabilization. Geographically, the decline was primarily in the Corporation's Maryland ($81.5 million, or 40.3%), Virginia ($68.2 million, or 31.9%) and New Jersey ($42.4 million, or 27.2%) markets.

The $30.5 million, or 8.4%, decrease in consumer loans was due to a $17.3 million decrease in direct consumer loans and a $13.1 million decrease in the indirect automobile loan portfolio.

The average yield on loans during 2011 of 5.09% represented a 24 basis point, or 4.5%, decrease in comparison to 2010, despite the average prime rate remaining at 3.25% for both 2011 and 2010. The decrease in average yields on loans was attributable to repayments of higher-yielding loans and declining average rates on fixed and adjustable rate loans which, unlike floating rate loans, have a lagged repricing effect. In addition, approximately one-third of the floating rate portfolio is based on an index rate other than prime, such as the one-month London Interbank Offered Rate, or LIBOR, which decreased slightly on average from 2011 to 2010.

Average investments decreased $219.7 million, or 7.6%, due largely to maturities or calls of collateralized mortgage obligations and state and municipal securities and redemptions of student loan auction rate securities. During 2011, the proceeds from the maturities and sales of securities were not fully reinvested into the portfolio because current rates on many investment options were not attractive. The average yield on investments decreased 33 basis points, or 8.0%, from 4.13% in 2010 to 3.80% in 2011, as the reinvestment of cash flows and purchases of taxable investment securities were at yields that were lower than the overall portfolio yield. Also contributing 4 basis points to the decrease in investment yield was an increase in net premium amortization of $843,000 to $6.0 million for 2011, compared to $5.2 million in 2010 due to higher prepayments on mortgage-backed securities.

Loans held for sale decreased $25.7 million, or 37.1%, due to a decrease in the volumes of loans sold, a result of lower refinance activity during 2011, and also due to the Corporation's retention of certain residential mortgages in portfolio.

Other interest-earning assets decreased $32.2 million, or 16.7%, as the Corporation reduced its average overnight investment position.

Interest expense decreased $53.1 million, or 28.4%, to $133.5 million in 2011 from $186.6 million in 2010. Interest expense decreased $28.6 million due to a 39 basis point, or 25.3%, decrease in the average cost of total interest-bearing liabilities. Interest expense decreased an additional $24.5 million as a result of a $576.4 million, or 4.7%, decrease in average interest-bearing liabilities.

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

| | 2011 | 2010 | Increase (decrease) $ | Increase (decrease) % |
|---|---|---|---|---|
| | (dollars in thousands) | | | |
| Noninterest-bearing demand | $2,400,293 | $2,104,016 | $296,277 | 14.1 % |
| Interest-bearing demand | 2,391,043 | 2,099,026 | 292,017 | 13.9 |
| Savings | 3,359,109 | 3,124,157 | 234,952 | 7.5 |
| Total demand and savings | 8,150,445 | 7,327,199 | 823,246 | 11.2 |
| Time deposits | 4,297,106 | 5,016,645 | (719,539 ) | (14.3 ) |
| Total deposits | $12,447,551 | $12,343,844 | $103,707 | 0.8 % |

Total demand and savings accounts increased $823.2 million, or 11.2%. The increase in noninterest-bearing accounts was primarily due to a $235.9 million, or 16.1%, increase in business account balances due, in part, to businesses maintaining higher balances to offset service fees, as well as a migration away from the Corporation's cash management products due to the low interest rate environment. Also contributing to the increase in non-interest bearing accounts was a $42.3 million, or 7.8%, increase in personal account balances. The increase in interest-bearing demand and savings accounts consisted of a $329.1 million, or 27.1%, increase in municipal account balances, primarily due to attractive interest rates for insured deposit products relative to non-bank alternatives and a $256.2 million, or 7.0%, increase in personal account balances. The increases in non-interest and interest bearing personal account balances was due to customers' migration away from certificates of deposit, as well as the Corporation's promotional efforts with a focus on building customer relationships.

The $719.5 million, or 14.3%, decrease in time deposits was due to a $713.1 million, or 14.2%, decrease in customer certificates of deposit and a $6.4 million, or 64.5%, decrease in brokered certificates of deposit. The decrease in customer certificates of deposit was in accounts with original maturity terms of less than two years ($706.9 million, or 22.5%) and jumbo certificates of deposit ($146.9, or 39.7%), partially offset by an increase in accounts with original maturity terms of greater than two years ($160.7 million, or 15.0%). The decreases in shorter-term and jumbo customer certificates of deposit reflected customer movement of balances to core accounts and longer-term deposits, as well as to the Corporation not competing aggressively for time deposit balances.

The average cost of interest-bearing deposits decreased 36 basis points, or 30.3%, from 1.19% in 2010 to 0.83% in 2011 due to a reduction in rates paid on all categories of deposits and the repricing of certificates of deposit to lower rates. Excluding early redemptions, $3.5 billion of time deposits matured during 2011 at a weighted average rate of 1.20%, while $3.2 billion of time deposits were issued at a weighted average rate of 0.66%.
The following table summarizes the decreases in average borrowings, by type:

| | 2011 | 2010 | Decrease $ | Decrease % |
|---|---|---|---|---|
| | (dollars in thousands) | | | |
| Short-term borrowings: | | | | |
| Customer repurchase agreements | $208,144 | $252,634 | $(44,490) | (17.6)% |
| Customer short-term promissory notes | 174,624 | 209,766 | (35,142) | (16.8) |
| Total short-term customer funding | 382,768 | 462,400 | (79,632) | (17.2) |
| Federal funds purchased | 113,023 | 125,202 | (12,179) | (9.7) |
| Total short-term borrowings | 495,791 | 587,602 | (91,811) | (15.6) |
| Long-term debt: | | | | |
| FHLB Advances | 651,268 | 943,118 | (291,850) | (30.9) |
| Other long-term debt | 383,207 | 383,331 | (124) | — |
| Total long-term debt | 1,034,475 | 1,326,449 | (291,974) | (22.0) |
| Total | $1,530,266 | $1,914,051 | $(383,785) | (20.1)% |

The $79.6 million, or 17.2%, decrease in short-term customer funding resulted primarily from customers transferring funds from the cash management program to deposits due to the low interest rate environment. The $12.2 million, or 9.7%, decrease in Federal funds purchased was due to increases in average deposits, combined with the decreases in investments and loans, the result of which was a reduced need for wholesale funding. The $291.9 million decrease in FHLB advances was due to maturities, which were generally not replaced with new advances.
2010 vs. 2009
FTE interest income decreased $41.1 million, or 5.1%. A 23 basis point, or 4.4%, decrease in average rates resulted in a $27.5 million decrease in interest income, while a $119.5 million, or 0.8%, decrease in average interest-earning assets resulted in a $13.7 million decrease in interest income.
Overall loan demand continued to be weak during 2010. The Corporation continued to manage risk by reducing its exposure in certain loan types, particularly construction loans. Increases resulting from new originations were offset by decreases due to repayments and charge-offs.
Commercial mortgages increased $197.9 million, or 4.8%. Geographically, the increase in commercial mortgages was within the Corporation's Pennsylvania ($127.8 million, or 5.9%), Maryland ($31.3 million, or 8.8%), New Jersey ($21.1 million, or 1.8%) and Virginia ($17.6 million, or 5.4%) markets.
Residential mortgages increased $39.7 million, or 4.2%, largely due to the Corporation's retention in portfolio of certain 10 and 15 year fixed rate mortgages and certain adjustable rate mortgages to partially mitigate the impact of decreases in average interest-earning assets.
Construction loans decreased $222.6 million, or 20.0%, primarily due to efforts to decrease credit exposure in this portfolio as new loan originations decreased during 2010. In addition, $66.4 million of charge-offs recorded in 2010 contributed to the decrease. Geographically, the decline was primarily in the Corporation's Maryland ($91.6 million, or 31.2%), Virginia ($65.8 million, or 23.6%) and New Jersey ($62.4 million, or 28.6%) markets.
The average yield on loans during 2010 of 5.33% represented a 14 basis point, or 2.6%, decrease in comparison to 2009, despite the average prime rate remaining at 3.25% for both 2010 and 2009. The decrease in average yields on loans was attributable to repayments of higher-yielding loans and declining average rates on fixed and adjustable rate loans which, unlike floating rate loans, have a lagged repricing effect. In addition, approximately one-third of the floating rate portfolio is based on an index rate other than prime, such as the one-month LIBOR, which decreased on average from 2009 to 2010.

Average investments decreased $237.8 million, or 7.6%, due largely to maturities of mortgage-backed securities, state and municipal securities and U.S. government sponsored agency securities, partially offset by an increase in collateralized mortgage obligations.

During 2010, the proceeds from the maturities and sales of securities were not fully reinvested into the portfolio because current rates on many investment options were not attractive. The average yield on investments decreased 37 basis points, or 8.2%, from 4.50% in 2009 to 4.13% in 2010, as the reinvestment of cash flows and purchases of taxable investment securities were at yields that were lower than the overall portfolio yield.
Other interest-earning assets increased $171.6 million, or 807.5%, due to a lack of attractive investment alternatives.
Interest expense decreased $78.9 million, or 29.7%, to $186.6 million in 2010 from $265.5 million in 2009. Of this decrease, $52.6 million resulted from a 58 basis point, or 27.4%, decrease in the average cost of total interest-bearing liabilities. The remainder of the decrease in interest expense, $26.3 million, resulted from a $392.1 million, or 3.1%, decrease in average interest-bearing liabilities.
Total demand and savings accounts increased $1.2 billion, or 19.5%, which was consistent with industry trends as economic conditions have slowed spending and encouraged saving. Noninterest-bearing accounts increased $256.9 million, or 13.9%, primarily due to a $217.8 million, or 17.5%, increase in business account balances. Interest-bearing demand and savings accounts increased $940.2 million, or 22.0%, which consisted of a $468.6 million, or 17.8%, increase in personal account balances, a $284.9 million, or 30.7%, increase in municipal account balances and a $186.8 million, or 26.1%, increase in business account balances. Growth in business account balances was due, in part, to businesses being required to keep higher balances on hand to offset service fees, as well as a migration away from the Corporation’s cash management products due to low interest rates. The increase in personal account balances was a result of a decrease in customer certificates of deposit as well as the Corporation’s promotional efforts with a focus on building customer relationships.

Time deposits decreased $490.4 million, or 8.9%, which consisted of a $353.4 million, or 6.6%, decrease in customer certificates of deposits and a $137.1 million, or 93.2%, decrease in brokered certificates of deposit. The decrease in customer certificates of deposit was in accounts with original maturity terms of less than one year of $901.6 million, or 33.8%, partially offset by an increase in accounts with original maturity terms of greater than one year of $586.4 million, or 34.4%. As noted above, the decrease in short-term customer certificates of deposit was largely due to customers migrating funds to interest-bearing savings and demand accounts. The growth in longer-term certificates of deposit was due to the Corporation’s continuing focus on building customer relationships, while at the same time extending funding maturities at reasonable rates over a longer time horizon. The decrease in brokered certificates of deposit occurred because the significant growth in customer funding reduced the need for non-core funding alternatives.
The average cost of interest-bearing deposits decreased 66 basis points, or 35.7%, from 1.85% in 2009 to 1.19% in 2010, primarily due to the maturities of higher-rate certificates of deposit. The average cost of time deposits decreased 88 basis points, or 31.7%. During 2010, $5.2 billion of time deposits matured at a weighted average rate of 1.69%, while $4.9 billion of time deposits were issued at a weighted average rate of 1.11%.

Short-term customer funding, consisting of customer repurchase agreements and customer short-term promissory notes, decreased $79.5 million, or 14.7%. The decrease in short-term customer funding resulted primarily from customers transferring funds from the cash management program to deposits due to the low interest rate environment.
Federal funds purchased and Federal Reserve Bank borrowings decreased $374.2 million, or 74.9%, due to increases in customer deposit accounts, combined with the decreases in investments and loans, the result of which was a reduced funding need for the Corporation. FHLB advances decreased $386.4 million, or 29.1%, due to maturities, which were generally not replaced with new advances.

Provision and Allowance for Credit Losses
The Corporation accounts for the credit risk associated with lending activities through its allowance for credit losses and provision for credit losses. The provision is the expense recognized on the consolidated statements of income to adjust the allowance to its proper balance, as determined through the application of the Corporation’s allowance methodology procedures. These procedures include the evaluation of the risk characteristics of the portfolio and documentation in accordance with the Securities and Exchange Commission’s (SEC) Staff Accounting Bulletin No. 102, “Selected Loan Loss Allowance Methodology and Documentation Issues.”

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

Effective April 1, 2011, the Corporation revised and enhanced its allowance for credit loss methodology. This change in methodology did not impact the total allowance for credit losses. See the “Critical Accounting Policies” section of Management’s Discussion for a discussion of the Corporation’s allowance for credit loss evaluation methodology.

The development of the Corporation’s allowance for credit losses is based first on a segmentation of its loan portfolio by general loan type, or "portfolio segments." Certain portfolio segments are further disaggregated and evaluated 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.

A summary of the Corporation's loan loss experience follows:

| | 2011 | | 2010 | | 2009 | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | (dollars in thousands) | | | | | | | | | |
| Loans, net of unearned income outstanding at end of year | $11,968,970 | | $11,933,307 | | $11,972,424 | | $12,042,620 | | $11,204,424 | |
| Daily average balance of loans, net of unearned income | $11,904,529 | | $11,958,435 | | $11,975,899 | | $11,595,243 | | $10,736,566 | |
| Balance of allowance for credit losses at beginning of year | $275,498 | | $257,553 | | $180,137 | | $112,209 | | $106,884 | |
| Loans charged off: | | | | | | | | | | |
| Commercial – industrial, financial and agricultural | 52,301 | | 35,865 | | 34,761 | | 18,592 | | 6,796 | |
| Real estate – construction | 38,613 | | 66,412 | | 44,909 | | 14,891 | | — | |
| Real estate – residential mortgage | 32,533 | | 6,896 | | 7,056 | | 5,868 | | 355 | |
| Real estate – commercial mortgage | 26,032 | | 28,209 | | 15,530 | | 7,516 | | 851 | |
| Consumer and home equity | 9,686 | | 11,210 | | 10,770 | | 5,188 | | 3,678 | |
| Leasing and other | 2,168 | | 2,833 | | 6,048 | | 4,804 | | 2,059 | |
| Total loans charged off | 161,333 | | 151,425 | | 119,074 | | 56,859 | | 13,739 | |
| Recoveries of loans previously charged off: | | | | | | | | | | |
| Commercial – industrial, financial and agricultural | 2,521 | | 4,536 | | 1,679 | | 1,795 | | 1,664 | |
| Real estate – construction | 1,746 | | 1,296 | | 1,194 | | 17 | | — | |
| Real estate – residential mortgage | 325 | | 9 | | 150 | | 143 | | 144 | |
| Real estate – commercial mortgage | 1,967 | | 1,008 | | 536 | | 286 | | 34 | |
| Consumer and home equity | 1,431 | | 1,540 | | 1,678 | | 1,487 | | 1,246 | |
| Leasing and other | 1,022 | | 981 | | 1,233 | | 1,433 | | 913 | |
| Total recoveries | 9,012 | | 9,370 | | 6,470 | | 5,161 | | 4,001 | |
| Net loans charged off | 152,321 | | 142,055 | | 112,604 | | 51,698 | | 9,738 | |
| Provision for credit losses | 135,000 | | 160,000 | | 190,020 | | 119,626 | | 15,063 | |
| Balance at end of year | $258,177 | | $275,498 | | $257,553 | | $180,137 | | $112,209 | |
| Components of Allowance for Credit Losses: | | | | | | | | | | |
| Allowance for loan losses | $256,471 | | $274,271 | | $256,698 | | $173,946 | | $107,547 | |
| Reserve for unfunded lending commitments (1) | 1,706 | | 1,227 | | 855 | | 6,191 | | 4,662 | |
| Allowance for credit losses | $258,177 | | $275,498 | | $257,553 | | $180,137 | | $112,209 | |
| Selected Asset Quality Ratios: | | | | | | | | | | |
| Net charge-offs to average loans | 1.28 | % | 1.19 | % | 0.94 | % | 0.45 | % | 0.09 | % |
| Allowance for loan losses to loans outstanding | 2.14 | % | 2.30 | % | 2.14 | % | 1.44 | % | 0.96 | % |
| Allowance for credit losses to loans outstanding | 2.16 | % | 2.31 | % | 2.15 | % | 1.50 | % | 1.00 | % |
| | 1.94 | % | 2.22 | % | 1.83 | % | 1.35 | % | 0.76 | % |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Non-performing assets (2) to total assets | | | | | | | | | | |
| Non-performing assets to total loans and Other Real Estate Owned (OREO) | 2.64 | % | 3.02 | % | 2.54 | % | 1.82 | % | 1.08 | % |
| Non-accrual loans to total loans | 2.15 | % | 2.35 | % | 1.99 | % | 1.34 | % | 0.68 | % |
| Allowance for credit losses to non-performing loans | 90.11 | % | 83.80 | % | 91.42 | % | 91.38 | % | 105.93 | % |
| Non-performing assets to tangible common shareholders' equity and allowance for credit losses | 18.60 | % | 22.50 | % | 24.00 | % | 19.68 | % | 11.71 | % |

(1)Reserve for unfunded lending commitments recorded within other liabilities on the consolidated balance sheets.
(2)Includes accruing loans past due 90 days or more.
The Corporation's provision for credit losses for 2011 totaled $135.0 million, a $25.0 million, or 15.6%, decrease from the $160.0 million provision for credit losses in 2010, as the level of non-performing assets decreased, leading to a decrease in additional allocation needs.

While the provision for credit losses decreased, net charge-offs increased as losses previously provided for were realized. This relationship between the provision for credit losses and net charge-offs is not unusual, since the recognition of losses through the provision generally occurs before such losses are realized through a charge-off against the allowance for credit losses. Net charge-offs increased $10.3 million, or 7.2%, to $152.3 million in 2011 from $142.1 million in 2010. The increase in net charge-offs was primarily due to increases in residential mortgage net charge-offs ($25.3 million, or 367.7%) and commercial loan net charge-offs ($18.5 million, or 58.9%), partially offset by declines in construction loan net charge-offs ($28.2 million, or 43.4%), commercial mortgage net charge-offs ($3.1 million, or 11.5%) and consumer and other net charge-offs ($2.1 million, or 18.4%).

The increase in residential mortgage net charge-offs was largely due to the sale of $34.7 million of non-performing residential mortgages and $152,000 of non-performing home equity loans to an investor in December 2011. Below is a summary of the transaction (in thousands):

| | |
|---|---|
| Recorded investment in loans sold | $34,810 |
| Proceeds from sale, net of selling expenses | 17,420 |
| Total charge-off | $(17,390) |
| Existing allocation for credit losses on sold loans | $(12,360) |

Of the $152.3 million of net charge-offs recorded in 2011, 28.6% were for loans originated by the Corporation's bank in New Jersey, 28.6% in Pennsylvania, 21.8% in Virginia and 18.4% in Maryland. During 2011, individual charge-offs of $1.0 million or greater totaled approximately $44 million, of which approximately $21 million were for commercial loans, approximately $16 million were for construction loans, approximately $6 million were for commercial mortgages loans and $1.3 million was for a residential mortgage. For 2010, individual charge-offs of $1.0 million or greater totaled approximately $76 million, of which approximately $52 million were for construction loans, approximately $12 million were for commercial mortgages loans, and approximately $12 million were for commercial loans.

The following table presents activity in the allowance for loan losses, by portfolio segment, for the year ended December 31, 2011:

| | Real Estate - Commercial Mortgage | Commercial - Industrial, Financial and Agricultural | Real Estate - Home Equity | Real Estate - Residential Mortgage | Real Estate - Construction | Consumer | Leasing and other and Overdrafts | Unallocated (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 | (26,032) | (52,301) | (6,397) | (32,533) | (38,613) | (3,289) | (2,168) | — | (161,333) |
| Recoveries of loans previously charged off | 1,967 | 2,521 | 63 | 325 | 1,746 | 1,368 | 1,022 | — | 9,012 |
| Net loans charged off | (24,065) | (49,780) | (6,334) | (32,208) | (36,867) | (1,921) | (1,146) | — | (152,321) |
| Provision for loan losses (2) | 45,463 | 36,628 | 9,031 | 29,873 | 33,587 | 2,411 | 647 | (23,119) | 134,521 |
| Impact of change in allowance methodology | 22,883 | (13,388) | 3,690 | 7,896 | (24,771) | (3,076) | (944) | 7,710 | — |
| Provision for loan losses, including impact of change in allowance methodology | 68,346 | 23,240 | 12,721 | 37,769 | 8,816 | (665) | (297) | (15,409) | 134,521 |
| | $85,112 | $74,896 | $12,841 | $22,986 | $30,066 | $2,083 | $2,397 | $26,090 | $256,471 |

Balance at
December 31,
2011

(1) The Corporation’s unallocated allowance, which was approximately 10% and 15% as of December 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 net of a $479,000 decrease in provision applied to unfunded commitments for the year ended December 31, 2011. The total provision
for credit losses, comprised of allocations for both funded and unfunded loans, was $135.0 million for the year ended December 31, 2011.

During 2011, the $134.5 million provision for loan losses, including the impact of the Corporation's change in methodology, was allocated 50.8% to commercial mortgages, 28.1% to residential mortgages, 17.3% to commercial mortgages, 9.5% to home equity loans and 6.6% to construction loans. Allocations of the provision for loan losses to these loan types were offset by a negative provision to reduce the unallocated allowance by $15.4 million, due to the Corporation's new reserve methodology, including an enhanced qualitative process that has further quantified inherent risks that were historically covered by the unallocated allowance.

Changes in allocations by portfolio segment are driven by indications of credit quality deterioration. The Corporation's allowance for loan loss methodology segments commercial loans, commercial mortgages and certain construction loans into separate pools based on internally assigned risk ratings. Residential mortgages, home equity loans, consumer loans, and lease receivables are further segmented into separate pools based on delinquency status.

The following table presents internal risk ratings for commercial loans, commercial mortgages and certain construction loans by class segment as of December 31:

| | Pass | | Special Mention | | Substandard or Lower | | Total | |
|---|---|---|---|---|---|---|---|---|
| | December 31, 2011 | December 31, 2010 | December 31, 2011 | December 31, 2010 | December 31, 2011 | December 31, 2010 | December 31, 2011 | December 31, 2010 |
| | (dollars in thousands) | | | | | | | |
| Real estate - commercial mortgage | $4,099,103 | $3,776,714 | $160,935 | $306,926 | $342,558 | $292,340 | $4,602,596 | $4,375,980 |
| Commercial - secured | 2,977,957 | 2,903,184 | 166,588 | 244,927 | 249,014 | 323,187 | 3,393,559 | 3,471,298 |
| Commercial -unsecured | 230,962 | 211,298 | 6,066 | 14,177 | 8,781 | 7,611 | 245,809 | 233,086 |
| Total commercial - industrial, financial and agricultural | 3,208,919 | 3,114,482 | 172,654 | 259,104 | 257,795 | 330,798 | 3,639,368 | 3,704,384 |
| Construction - commercial residential | 175,706 | 251,159 | 50,854 | 84,774 | 126,378 | 156,966 | 352,938 | 492,899 |
| Construction - commercial | 186,049 | 222,357 | 7,022 | 10,221 | 16,309 | 11,859 | 209,380 | 244,437 |
| Total real estate - construction (excluding Construction - other) | 361,755 | 473,516 | 57,876 | 94,995 | 142,687 | 168,825 | 562,318 | 737,336 |
| Total | $7,669,777 | $7,364,712 | $391,465 | $661,025 | $743,040 | $791,963 | $8,804,282 | $8,817,700 |
| % of Total | 87.1 % | 83.5 % | 4.5 % | 7.5 % | 8.4 % | 9.0 % | 100.0 % | 100.0 % |

As of December 31, 2011, total loans with risk ratings of substandard or lower decreased $48.9 million, or 6.2%, in comparison to 2010. This decrease was due to a $73.0 million, or 22.1%, decrease in commercial loans rated substandard or lower and a $26.1 million, or 15.5%, decrease in construction loans class segments rated substandard or lower, partially offset by a $50.2 million, or 17.2%, increase in commercial mortgage loans rated substandard or lower.

Special mention risk rated loans decreased $269.6 million, or 40.8%, and comprised 4.5% of total risk rated loans as of December 31, 2011, as compared to 7.5% in 2010. Pass risk rated loans increased $305.1 million, or 4.1%, and accounted for 87.1% of total risk rated loans as of December 31, 2011. This improvement from 83.5% in 2010 contributed to the decrease in allowance allocations in 2011.

The following table presents a summary of delinquency status for home equity, residential mortgage, consumer, leasing and other and certain construction loans by class segment:

| | Performing | | Delinquent (1) | | Non-performing (2) | | Total | |
|---|---|---|---|---|---|---|---|---|
| | December 31, 2011 | December 31, 2010 | December 31, 2011 | December 31, 2010 | December 31, 2011 | December 31, 2010 | December 31, 2011 | December 31, 2010 |
| | (dollars in thousands) | | | | | | | |
| Real estate - home equity | $1,601,722 | $1,619,684 | $11,633 | $11,905 | $11,207 | $10,188 | $1,624,562 | $1,641,777 |
| | 1,043,733 | 909,247 | 37,123 | 36,331 | 16,336 | 50,412 | 1,097,192 | 995,990 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Real estate - residential mortgage | | | | | | | | |
| Real estate - construction - other | 49,593 | 60,956 | 2,341 | — | 1,193 | 2,893 | 53,127 | 63,849 |
| Consumer - direct | 34,263 | 45,942 | 657 | 935 | 518 | 212 | 35,438 | 47,089 |
| Consumer - indirect | 151,112 | 166,531 | 2,437 | 2,275 | 183 | 290 | 153,732 | 169,096 |
| Consumer - other | 122,894 | 129,911 | 3,354 | 2,413 | 2,683 | 1,652 | 128,931 | 133,976 |
| Total consumer | 308,269 | 342,384 | 6,448 | 5,623 | 3,384 | 2,154 | 318,101 | 350,161 |
| Leasing and other and overdrafts | 70,550 | 63,087 | 1,049 | 516 | 107 | 227 | 71,706 | 63,830 |
| Total | $3,073,867 | $2,995,358 | $58,594 | $54,375 | $32,227 | $65,874 | $3,164,688 | $3,115,607 |
| % of Total | 97.1 % | 96.2 % | 1.9 % | 1.7 % | 1.0 % | 2.1 % | 100.0 % | 100.0 % |

(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.

As of December 31, 2011, non-performing loans in the above class segments decreased $33.6 million, or 51.1%, due largely to the sale of non-performing residential mortgages in December 2011.

The following table summarizes loan delinquencies as a percentage of loans, by portfolio segment, as of December 31:

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | 31-89 Days | ≥90 Days | Total | 31-89 Days | ≥90 Days | Total |
| Real estate – commercial mortgage | 0.56 % | 2.47 % | 3.03 % | 0.56 % | 2.14 % | 2.70 % |
| Commercial – industrial, financial and agricultural | 0.41 | 2.23 | 2.64 | 0.36 | 2.36 | 2.72 |
| Real estate – home equity | 0.72 | 0.69 | 1.41 | 0.73 | 0.62 | 1.35 |
| Real estate – residential mortgage | 3.38 | 1.49 | 4.87 | 3.65 | 5.06 | 8.71 |
| Real estate – construction | 1.55 | 9.87 | 11.42 | 0.91 | 10.56 | 11.47 |
| Consumer | 2.03 | 1.06 | 3.09 | 1.61 | 0.61 | 2.22 |
| Leasing and other and overdrafts | 1.46 | 0.15 | 1.61 | 0.81 | 0.35 | 1.16 |
| Total | 0.89 % | 2.39 % | 3.28 % | 0.83 % | 2.76 % | 3.59 % |
| Total dollars (in thousands) | $106,393 | $286,528 | $392,921 | $99,330 | $328,772 | $428,102 |

The following table presents the aggregate amount of non-accrual and past due loans and OREO:

| | December 31 | | | | |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| | (in thousands) | | | | |
| Non-accrual loans (1) (2) (3) | $257,761 | $280,688 | $238,360 | $161,962 | $76,150 |
| Accruing loans past due 90 days or more (2) | 28,767 | 48,084 | 43,359 | 35,177 | 29,782 |
| Total non-performing loans | 286,528 | 328,772 | 281,719 | 197,139 | 105,932 |
| OREO | 30,803 | 32,959 | 23,309 | 21,855 | 14,934 |
| Total non-performing assets | $317,331 | $361,731 | $305,028 | $218,994 | $120,866 |

(1) In 2011, the total interest income that would have been recorded if non-accrual loans had been current in accordance with their original terms was approximately $17.3 million. The amount of interest income on non-accrual loans that was included in 2011 income was approximately $2.5 million.

(2) Accrual of interest is generally discontinued when a loan becomes 90 days past due as to principal and interest. When interest accruals are discontinued, interest credited to income is reversed. Non-accrual loans may be restored to accrual status when all delinquent principal and interest has been paid currently for six consecutive months or the loan is considered secured and in the process of collection. Certain loans, primarily adequately collateralized mortgage loans, may continue to accrue interest after reaching 90 days past due.

(3) Excluded from the amounts presented as of December 31, 2011 were $55.5 million of loans, modified under troubled debt restructurings (TDRs), where possible credit problems of borrowers have caused management to have doubts as to the ability of such borrowers to comply with the present loan repayment terms. These loans were reviewed for impairment under FASB ASC Section 310-10-35, but continue to accrue interest and are, therefore, not included in non-accrual loans. All non-accrual loans as of December 31, 2011 were reviewed for impairment under FASB ASC Section 310-10-35.

The following table presents loans whose terms were modified under TDRs as of December 31:

| | 2011 | 2010 |
|---|---|---|
| | (in thousands) | |
| Real estate – residential mortgage | $32,331 | $37,826 |
| Real estate – commercial mortgage | 22,425 | 18,778 |
| Real estate – construction | 7,645 | 5,440 |
| Commercial – industrial, financial and agricultural | 3,581 | 5,502 |

| | | |
|---|---|---|
| Consumer | 193 | 263 |
| Total accruing TDRs | 66,175 | 67,809 |
| Non-accrual TDRs (1) | 32,587 | 51,175 |
| Total TDRs | $ 98,762 | $ 118,984 |

(1) Included within non-accrual loans in the preceding table.

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

| | December 31 | | | | |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| | (in thousands) | | | | |
| Real estate – commercial mortgage | $113,806 | $93,720 | $61,052 | $41,745 | $14,515 |
| Commercial – industrial, financial and agricultural | 80,944 | 87,455 | 69,604 | 40,294 | 27,715 |
| Real estate – construction | 60,744 | 84,616 | 92,841 | 80,083 | 30,927 |
| Real estate – residential mortgage | 16,336 | 50,412 | 45,748 | 26,304 | 25,774 |
| Real estate – home equity | 11,207 | 10,188 | 10,790 | 6,766 | 1,991 |
| Consumer | 3,384 | 2,154 | 1,529 | 1,608 | 2,750 |
| Leasing | 107 | 227 | 155 | 339 | 2,260 |
| Total non-performing loans | $286,528 | $328,772 | $281,719 | $197,139 | $105,932 |

Non-performing loans decreased $42.2 million, or 12.8%, to $286.5 million as of December 31, 2011. The decrease included a $34.1 million, or 67.6%, decrease in non-performing residential mortgages, largely due to the sale of non-performing residential mortgages in December 2011. In addition, non-performing construction loans decreased $23.9 million, or 28.2%, and non-performing commercial loans decreased $6.5 million, or 7.4%. These decreases were partially offset by a $20.1 million, or 21.4%, increase in non-performing commercial mortgages.
Geographically, the $23.9 million decrease in non-performing construction loans was in the Corporation's Virginia ($15.0 million, or 48.9%) and Maryland ($14.1 million, or 45.7%) markets, partially offset by an increase in the Pennsylvania ($5.3 million, or 78.8%) market. The $6.5 million decrease in non-performing commercial loans was in the Virginia ($8.9 million, or 64.6%) and Pennsylvania ($1.3 million, or 2.6%) markets, partially offset by increases in the New Jersey ($3.4 million, or 24.2%) and Maryland ($1.3 million, or 15.0%) markets.
The $20.1 million increase in non-performing commercial mortgages was due to an increase in the New Jersey ($13.2 million, or 30.1%), Maryland ($8.6 million, or 169.7%) and Virginia ($8.0 million, or 203.6%) markets, partially offset by declines in the Delaware ($5.7 million, or 68.1%) and Pennsylvania ($4.1 million, or 12.6%) markets.
The following table summarizes OREO, by property type, as of December 31:

| | 2011 | 2010 |
|---|---|---|
| | (in thousands) | |
| Commercial properties | $15,184 | $15,916 |
| Residential properties | 10,499 | 12,635 |
| Undeveloped land | 5,120 | 4,408 |
| Total OREO | $30,803 | $32,959 |

The following table summarizes the allocation of the allowance for loan losses, by loan type:

| | 2011 | | 2010 | | 2009 | | 2008 | | 2007 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Allowance | % of Loans In Each Category | Allowance | % of Loans In Each Category | Allowance | % of Loans In Each Category | Allowance | % of Loans In Each Category | Allowance | % of Loans In Each Category |
| Real estate - commercial mortgage | $85,112 | 38.5 % | $40,831 | 36.8 % | $32,257 | 35.9 % | $42,402 | 33.4 % | $31,542 | 31.0 % |
| Commercial - industrial, financial and | 74,896 | 30.4 | 101,436 | 31.0 | 96,901 | 30.9 | 66,147 | 30.2 | 53,194 | 30.6 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| agricultural | | | | | | | | | | |
| Real estate - construction | 30,066 | 5.1 | 58,117 | 6.7 | 67,388 | 8.2 | 32,917 | 10.5 | 1,174 | 12.2 |
| Real estate - residential mortgage | 22,986 | 9.2 | 17,425 | 8.3 | 13,704 | 7.7 | 7,158 | 8.1 | 2,868 | 7.6 |
| Consumer, home equity, leasing & other | 17,321 | 16.8 | 14,963 | 17.2 | 13,620 | 17.3 | 8,167 | 17.8 | 8,142 | 18.6 |
| Unallocated | 26,090 | N/A | 41,499 | N/A | 32,828 | N/A | 17,155 | N/A | 10,627 | N/A |
| | $256,471 | 100.0 % | $274,271 | 100.0 % | $256,698 | 100.0 % | $173,946 | 100.0 % | $107,547 | 100.0 % |

N/A – Not applicable.

Management believes that the allowance for loan losses balance of $256.5 million as of December 31, 2011 is sufficient to cover losses inherent in the loan portfolio. See additional disclosures in Note A, “Summary of Significant Accounting Policies” and Note D, "Loans and Allowance for Credit Losses," in the Notes to Consolidated Financial Statements and “Critical Accounting Policies,” in Management’s Discussion.

Other Income and Expenses
2011 vs. 2010
Other Income
The following table presents the components of other income for the past two years:

| | 2011 | 2010 | Increase (decrease) $ | Increase (decrease) % |
|---|---|---|---|---|
| | (dollars in thousands) | | | |
| Overdraft fees | $32,062 | $35,612 | $(3,550) | (10.0)% |
| Cash management fees | 10,590 | 9,775 | 815 | 8.3 |
| Other | 15,426 | 13,205 | 2,221 | 16.8 |
| Service charges on deposit accounts | 58,078 | 58,592 | (514) | (0.9) |
| Debit card income | 15,535 | 15,870 | (335) | (2.1) |
| Merchant fees | 10,126 | 8,509 | 1,617 | 19.0 |
| Foreign currency processing income | 9,400 | 8,193 | 1,207 | 14.7 |
| Letter of credit fees | 5,038 | 5,364 | (326) | (6.1) |
| Other | 7,383 | 7,087 | 296 | 4.2 |
| Other service charges and fees | 47,482 | 45,023 | 2,459 | 5.5 |
| Investment management and trust services | 36,483 | 34,173 | 2,310 | 6.8 |
| Mortgage banking income | 25,674 | 29,304 | (3,630) | (12.4) |
| Credit card income | 7,004 | 6,115 | 889 | 14.5 |
| Other income | 8,445 | 8,412 | 33 | 0.4 |
| Total, excluding investment securities gains | 183,166 | 181,619 | 1,547 | 0.9 |
| Investment securities gains | 4,561 | 701 | 3,860 | 550.6 |
| Total | $187,727 | $182,320 | $5,407 | 3.0% |

The $3.6 million, or 10.0%, decrease in overdraft fees was a result of changes in regulations which took effect in August of 2010, which require customers to affirmatively consent to the payment of certain types of overdrafts. The $815,000, or 8.3%, increase in cash management fees was primarily due to an increase in certain fees which were implemented in 2011. Other service charges on deposit accounts increased $2.2 million, or 16.8%, primarily due to the implementation of fee structure changes for certain products that occurred in 2011, and partially due to an increase in demand and savings account balances.

The $335,000, or 2.1%, decrease in debit card income was due to new Federal Reserve pricing rules that became effective on October 1, 2011 which established maximum interchange fees an issuer can charge on debit card transactions, partially offset by volume growth. The $1.6 million, or 19.0%, increase in merchant fees and the $1.2 million, or 14.7%, increase in foreign currency processing income were both due to increases in transaction volumes. The $2.3 million, or 6.8%, increase in investment management and trust services was due primarily to a $1.5 million, or 12.0%, increase in brokerage revenue and a $534,000, or 2.5%, increase in trust commissions. These increases resulted from the Corporation's expanded focus on generating recurring revenue in the brokerage business, increased sales of new trust business, and an improvement in the market values of existing assets under management.

Mortgage banking income decreased $3.6 million, or 12.4%. During 2010, the Corporation recorded $3.3 million of mortgage sale gains resulting from a change in its methodology for determining the fair value of its commitments to originate fixed-rate residential mortgage loans for sale, also referred to as interest rate locks. See Note A, “Summary of Significant Accounting Policies” in the Notes to Consolidated Financial Statements for additional details. Adjusting for the impact of this change, mortgage banking income decreased $2.2 million, or 7.8%, due to a decrease in volumes, partially offset by an increase in pricing spreads. Total loans sold in 2011 were $1.2 billion, compared to $1.6 billion of loans sold in 2010. The $361.8 million, or 23.2%, decrease in loans sold was due to a decrease in refinance volumes. Refinances accounted for 54% of sale volumes in 2011, compared to 60% in 2010. Mortgage sales volumes and related gains were also impacted by the decision to retain certain 10 and 15 year fixed rate mortgages in portfolio.

The $889,000, or 14.5%, increase in credit card income was primarily due to an increase in transactions and interest on credit cards previously originated, which generate fees under a joint marketing agreement with an independent third party.

Investment securities gains of $4.6 million for 2011 included $7.5 million of net gains on the sales of securities, partially offset by other-than-temporary impairment charges of $2.9 million. During 2011, the Corporation recorded other-than-temporary impairment charges of $1.4 million for pooled trust preferred securities issued by financial institutions, $1.2 million for financial institutions stocks and $292,000 for auction rate securities. The $701,000 of investment securities gains for 2010 resulted from $14.7 million of net gains on the sales of securities, partially offset by other-than-temporary impairment charges of $12.0 million for pooled trust preferred securities issued by financial institutions and $2.0 million for financial institutions stocks. 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 for each of the past two years:

| | 2011 | 2010 | Increase (decrease) $ | Increase (decrease) % |
|---|---|---|---|---|
| | (dollars in thousands) | | | |
| Salaries and employee benefits | $227,435 | $216,487 | $10,948 | 5.1 % |
| Net occupancy expense | 44,003 | 43,533 | 470 | 1.1 |
| FDIC insurance expense | 14,480 | 19,715 | (5,235) | (26.6) |
| Data processing | 13,541 | 13,263 | 278 | 2.1 |
| Equipment expense | 12,870 | 11,692 | 1,178 | 10.1 |
| Professional fees | 12,159 | 11,523 | 636 | 5.5 |
| Marketing | 9,667 | 11,163 | (1,496) | (13.4) |
| OREO and repossession expense | 8,366 | 7,441 | 925 | 12.4 |
| Telecommunications | 8,119 | 8,543 | (424) | (5.0) |
| Supplies | 5,507 | 5,633 | (126) | (2.2) |
| Postage | 5,065 | 5,306 | (241) | (4.5) |
| Intangible amortization | 4,257 | 5,240 | (983) | (18.8) |
| Operating risk loss | 1,328 | 3,025 | (1,697) | (56.1) |
| Other | 49,679 | 45,761 | 3,918 | 8.6 |
| Total | $416,476 | $408,325 | $8,151 | 2.0 % |

Salaries and employee benefits increased $10.9 million, or 5.1%, with salaries increasing $11.4 million, or 6.4%, and employee benefits decreasing $405,000, or 1.1%. The increase in salaries expense was largely due to annual merit increases in 2011, a $2.2 million increase in stock based compensation expense and a $2.2 million increase in incentive compensation expense.

The decrease in employee benefits was primarily due to a $329,000 decrease in defined benefit pension plan expense and a $262,000 decrease in profit sharing expense, partially offset by an increase in severance expense.

The $5.2 million, or 26.6%, decrease in FDIC insurance expense was primarily due to a change in the assessment base, which effective April 1, 2011, was based on total average assets minus average tangible equity, as compared to the previous assessment calculation, which was based on average domestic deposits.

The $1.2 million, or 10.1%, increase in equipment expense was largely due to a $700,000, or 9.6%, increase in depreciation expense, primarily related to the addition of assets supporting the Corporation's information technology infrastructure, and increased maintenance costs. The $636,000, or 5.5%, increase in professional fees was due to increased legal costs associated with the collection and workout efforts for non-performing loans, in addition to an increase in regulatory fees. The $1.5 million, or 13.4%, decrease in marketing expenses was due to efforts to control expenditures and the timing of promotional campaigns in 2011. The $925,000, or 12.4%, increase in OREO and repossession expense was due to increased costs associated with the repossession of foreclosed assets, partially offset by a net increase in gains on sales of OREO. Total net gains on sales of OREO were $762,000 in 2011 compared to net losses of $452,000 in 2010. OREO and repossession expense is expected to be volatile as the Corporation

continues to work through repossessed real estate.
The $983,000, or 18.8%, decrease in intangible amortization was due to certain core deposit intangible assets becoming fully amortized during 2011. The $1.7 million, or 56.1%, decrease in operating risk loss was primarily due to a $1.1 million reduction in accruals for potential repurchases of previously sold residential mortgage and home equity loans.

The $3.9 million, or 8.6%, increase in other expenses included a $1.0 million increase in software maintenance costs. In mid-2010, the Corporation entered into a three-year desktop software licensing agreement, thereby resulting in a full-year of costs for this maintenance agreement in 2011 compared to a partial year impact in 2010. Also contributing to the increase in other expenses was a $528,000 increase in merchant and debit cardholder assessment fees, a $448,000 increase in losses on the sale of fixed assets, $296,000 of consulting services related to the Corporation's planned core technology platform upgrade and a $300,000 loss upon redemption of a junior subordinated deferrable interest debenture in 2011.

2010 vs. 2009

Other Income

Other income for 2010 increased $8.4 million, or 4.8%, in comparison to 2009. Excluding investment securities gains and losses, other income increased $8.8 million, or 5.1%.

Service charges on deposit accounts decreased $1.9 million, or 3.1%, due primarily to a $1.6 million, or 14.2%, decrease in cash management fees and a $352,000, or 1.0%, decrease in overdraft fees. The decrease in cash management fees was a result of customers transferring funds from the cash management program to deposits due to the low interest rate environment. Average cash management balances decreased 14.7% in 2010 in comparison to 2009. The $352,000, or 1.0%, decrease in overdraft fees was a result of regulations which took effect in August of 2010 that require customers to affirmatively consent to the payment of certain types of overdrafts. Partially offsetting the effect of these regulations was growth in fees largely due to an increase in transaction volumes.

Other service charges and fees increased $4.6 million, or 11.4%, including a $2.7 million, or 20.7%, increase in debit card income, which was partially due to an increase in transaction volumes and partially due to the introduction of a new rewards points program in 2010. Also contributing to the increase in other service charges and fees was a $1.0 million, or 13.8%, increase in merchant fees and a $1.6 million, or 24.6%, increase in foreign currency processing income, both due to increases in transaction volumes. The Corporation’s Fulton Bank, N.A. subsidiary has a foreign currency payment processing division that achieved significant growth over the past two years, contributing to the increase in foreign currency processing income. These increases in other service charges and fees were partially offset by a $1.0 million, or 16.0%, decrease in letter of credit fees, which was due to a decrease in the balance of letters of credit outstanding from $588.7 million at December 31, 2009 to $520.5 million at December 31, 2010.

Investment management and trust services increased $2.1 million, or 6.5%, due primarily to a $2.8 million, or 28.2%, increase in brokerage revenue, partially offset by a $716,000, or 3.2%, decrease in trust commissions. Throughout 2009, the Corporation expanded its brokerage operations by adding to its sales staff and transitioning from a transaction-based revenue model to a relationship-based model, which generates fees based on the values of assets under management rather than transaction volume. In 2010, the effect of these fully-implemented changes resulted in a positive impact to brokerage revenue.

Mortgage banking income increased $4.2 million, or 16.9%, which included a $4.9 million increase in gains on sales of mortgage loans, offset by a $631,000 decrease in mortgage servicing income. During 2010, the Corporation recorded a $3.3 million increase to mortgage banking income resulting from a correction of its methodology for determining the fair value of its interest rate locks. Adjusting for the impact of this change, mortgage banking income increased $2.3 million, or 9.1%, due to an increase in the spread on loans sold in 2010, partially offset by lower volumes. Total loans sold in 2010 were $1.6 billion, compared to $2.1 billion of loans sold in 2009. The $571.2 million, or 26.8%, decrease in loans sold was due to a decrease in refinance volumes. Refinances accounted for 60% of sale volumes in 2010, compared to 70% in 2009. The decrease in mortgage servicing income was due to a $550,000 increase to the mortgage servicing rights valuation allowance as expected prepayment speeds increased during the year.

Credit card income increased $643,000, or 11.8%, primarily due to an increase of transactions on credit cards previously originated and new card account originations, which generate fees under a joint marketing agreement with an independent third party. Other income decreased $960,000, or 10.2%, primarily due to a decrease in title search fee income, as a result of lower volumes of residential mortgage loans originated.

Investment securities gains of $701,000 for 2010 included $14.7 million of net gains on the sales of securities, partially offset by other-than-temporary impairment charges of $14.0 million. During 2010, the Corporation recorded other-than-temporary impairment charges of $12.0 million of for pooled trust preferred securities issued by financial institutions and $2.0 million for financial institutions stocks. The $1.1 million of investment securities gains for 2009 resulted from $14.5 million of net gains on sales of debt securities, partially offset by $9.5 million of other-than-temporary impairment charges for pooled trust preferred securities issued by financial institutions and $3.8 million of other-than-temporary impairment charges for financial institutions stocks.

Other Expenses
Other expenses decreased $7.2 million, or 1.7%, in comparison to 2009.

Salaries and employee benefits decreased $2.3 million, or 1.1%, with salaries increasing $210,000, or 0.1%, and employee benefits decreasing $2.5 million, or 6.2%. The moderate increase in salaries expense was due to the ending of a 12-month freeze on merit increases in March 2010, which was largely offset by a 2.0% decrease in average full-time equivalent employees, from approximately 3,600 in 2009 to approximately 3,530 in 2010, and an $813,000 decrease in incentive compensation expenses.

The decrease in employee benefits was primarily due to a $2.2 million decrease in healthcare claims costs due in part to a change in employee deductibles, a $932,000 decrease in defined benefit pension plan expense due to a higher return on plan assets and a decrease in severance expense, primarily due to $808,000 of severance expense recorded in 2009 related to the consolidation of the Corporation's Columbia Bank subsidiary's back office functions. These decreases were partially offset by an increase in accruals for compensated absences.

Net occupancy expense increased $1.5 million, or 3.6%, due to higher maintenance expense, primarily snow removal and utilities costs. FDIC insurance expense decreased $6.9 million, or 25.8%, due to the impact of the $7.7 million special assessment recorded in 2009 and the Corporation opting out of the Transaction Account Guarantee program in mid-year 2010. The impact of these decreases was partially offset by an increase in FDIC assessment rates.

Data processing expense decreased $1.2 million, or 8.1%, primarily due to savings realized from the consolidation of back office functions of the Corporation's Columbia Bank subsidiary during 2009. Equipment expense decreased $1.1 million, or 8.8%, largely due to a decrease in depreciation expense and an increase in certain vendor rebates in 2010.

Professional fees increased $2.4 million, or 26.6%, due to increased legal costs associated with the collection and workout efforts for non-performing loans, in addition to an increase in regulatory fees. Marketing expenses increased $2.2 million, or 25.2%, due to new promotional campaigns initiated in 2010. OREO and repossession expense increased $500,000, or 7.2%, due primarily to increased costs associated with the repossession of foreclosed assets and a net increase in provisions and net losses on sales of OREO.

Operating risk loss decreased $4.5 million, or 59.9%, due a $6.2 million charge recorded in 2009 related to the Corporation's commitment to purchase illiquid auction rate securities from customer accounts. The Corporation did not record any charges related to this guarantee in 2010 as all remaining customer auction rate securities were purchased during 2009. Partially offsetting this increase was the effect of $600,000 of credits, recorded in 2009, related to a reduction in the Corporation's accrual for potential repurchases of previously sold residential mortgage and home equity loans.

Other expenses increased $2.7 million, or 6.3%, which included a $1.1 million increase in software maintenance costs, mainly due to upgrades in desktop software for virtually all employees, an $809,000 increase in student loan lender expense as a result of the low interest rate environment and a $376,000 increase in provision for debit card rewards points earned.

Income Taxes
Income tax expense for 2011 was $50.8 million, an increase of $6.4 million, or 14.5%, from 2010. Income tax expense for 2010 increased $29.0 million, or 188.2%, from 2009. The Corporation's effective tax rate (income taxes divided by income before income taxes) was 25.9%, 25.7% and 17.2% in 2011, 2010 and 2009, respectively.

The Corporation's effective tax rates are generally lower than the 35% Federal statutory rate due to investments in tax-free municipal securities and credits earned from investments in partnerships that generate such credits under various federal programs (Tax Credit Investments). Net credits associated with Tax Credit Investments were $8.5 million, $5.7 million and $4.7 million in 2011, 2010 and 2009, respectively.

For additional information regarding income taxes, see Note K, "Income Taxes," in the Notes to Consolidated Financial Statements.

FINANCIAL CONDITION

The table below presents condensed consolidated ending balance sheets for the Corporation.

| | December 31 | | Increase (decrease) | |
|---|---|---|---|---|
| | 2011 | 2010 | $ | % |
| | (dollars in thousands) | | | |
| Assets: | | | | |
| Cash and due from banks | $292,598 | $198,954 | $93,644 | 47.1 % |
| Other earning assets | 222,345 | 117,237 | 105,108 | 89.7 |
| Investment securities | 2,679,967 | 2,861,484 | (181,517) | (6.3) |
| Loans, net of allowance | 11,712,499 | 11,659,036 | 53,463 | 0.5 |
| Premises and equipment | 212,274 | 208,016 | 4,258 | 2.0 |
| Goodwill and intangible assets | 544,209 | 547,979 | (3,770) | (0.7) |
| Other assets | 706,616 | 682,548 | 24,068 | 3.5 |
| Total Assets | $16,370,508 | $16,275,254 | $95,254 | 0.6 % |
| Liabilities and Shareholders' Equity: | | | | |
| Deposits | $12,525,739 | $12,388,581 | $137,158 | 1.1 % |
| Short-term borrowings | 597,033 | 674,077 | (77,044) | (11.4) |
| Long-term debt | 1,040,149 | 1,119,450 | (79,301) | (7.1) |
| Other liabilities | 215,048 | 212,757 | 2,291 | 1.1 |
| Total Liabilities | 14,377,969 | 14,394,865 | (16,896) | (0.1) |
| Total Shareholders' Equity | 1,992,539 | 1,880,389 | 112,150 | 6.0 |
| Total Liabilities and Shareholders' Equity | $16,370,508 | $16,275,254 | $95,254 | 0.6 % |

Investment Securities

The following table presents the carrying amount of investment securities held to maturity (HTM) and available for sale (AFS) as of the dates shown:

| | December 31 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | | 2009 | | |
| | HTM | AFS | Total | HTM | AFS | Total | HTM | AFS | Total |
| | (in thousands) | | | | | | | | |
| U.S. Government securities | $— | $334 | $334 | $— | $1,649 | $1,649 | $— | $1,325 | $1,325 |
| U.S. Government sponsored agency securities | 5,987 | 4,073 | 10,060 | 6,339 | 5,058 | 11,397 | 6,713 | 91,956 | 98,669 |
| State and municipal | 179 | 322,018 | 322,197 | 346 | 349,563 | 349,909 | 503 | 415,773 | 416,276 |
| Corporate debt securities | — | 123,306 | 123,306 | — | 124,786 | 124,786 | — | 116,739 | 116,739 |
| Collateralized mortgage obligations | — | 1,001,209 | 1,001,209 | — | 1,104,058 | 1,104,058 | — | 1,122,996 | 1,122,996 |
| Mortgage-backed securities | 503 | 880,097 | 880,600 | 1,066 | 871,472 | 872,538 | 1,484 | 1,080,024 | 1,081,508 |
| Auction rate securities | — | 225,211 | 225,211 | — | 260,679 | 260,679 | — | 289,203 | 289,203 |
| Total debt securities | 6,669 | 2,556,248 | 2,562,917 | 7,751 | 2,717,265 | 2,725,016 | 8,700 | 3,118,016 | 3,126,716 |
| Equity securities | — | 117,050 | 117,050 | — | 136,468 | 136,468 | — | 140,370 | 140,370 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Total | $6,669 | $2,673,298 | $2,679,967 | $7,751 | $2,853,733 | $2,861,484 | $8,700 | $3,258,386 | $3,267,086 |

Total investment securities decreased $181.5 million, or 6.3%, to $2.7 billion at December 31, 2011. During 2011, proceeds from sales and maturities of collateralized mortgage obligations and mortgage-backed securities were not fully reinvested in the investment portfolio due to less attractive investment options in the low rate environment.
The Corporation classified 99.8% of its investment portfolio as available for sale as of December 31, 2011 and, as such, these

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investments were recorded at their estimated fair values. The net unrealized gain on available for sale investment securities was $40.1 million as of December 31, 2011, compared to $30.8 million as of December 31, 2010. During 2011, improvements in the fair values of state and municipal securities, mortgage-backed securities and corporate debt securities were partially offset by decreases in the fair values of auction rate securities and equity securities.

Loans

The following table presents loans outstanding, by type, as of the dates shown:

| | December 31 | | | | |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| | (in thousands) | | | | |
| Real estate – commercial mortgage | $4,602,596 | $4,375,980 | $4,292,300 | $4,016,700 | $3,480,958 |
| Commercial – industrial, financial and agricultural | 3,639,368 | 3,704,384 | 3,699,198 | 3,635,544 | 3,427,085 |
| Real estate – home equity | 1,624,562 | 1,641,777 | 1,644,260 | 1,695,398 | 1,501,231 |
| Real estate – residential mortgage | 1,097,192 | 995,990 | 921,741 | 972,797 | 848,901 |
| Real estate – construction | 615,445 | 801,185 | 978,267 | 1,269,330 | 1,366,923 |
| Consumer | 318,101 | 350,161 | 360,698 | 365,692 | 500,708 |
| Leasing and other | 78,700 | 71,028 | 83,675 | 97,687 | 89,383 |
| Gross loans | 11,975,964 | 11,940,505 | 11,980,139 | 12,053,148 | 11,215,189 |
| Unearned income | (6,994) | (7,198) | (7,715) | (10,528) | (10,765) |
| Loans, net of unearned income | $11,968,970 | $11,933,307 | $11,972,424 | $12,042,620 | $11,204,424 |

Total loans, net of unearned income, increased $35.7 million, or 0.3%, due to slightly improved demand, particularly within the commercial mortgage portfolio, which increased $226.6 million, or 5.2%. Also contributing to the increase in loans was a $101.2 million, or 10.2%, increase in residential mortgages, which was a result of the Corporation's retention in portfolio of certain 10 and 15 year fixed rate mortgages and certain adjustable rate mortgages rather than being sold in the secondary market. These increases were offset by a $185.7 million, or 23.2%, decrease in construction loans, due to a combination of weak demand for new residential housing and continuing efforts by the Corporation to reduce its exposure within this sector, specifically in its Maryland, New Jersey and Virginia markets. Commercial loans also decreased $65.0 million, or 1.8%, mostly due to a by-product of slow economic growth. Consumer loans decreased $32.1 million, or 9.2%, due to a $16.7 million decrease in direct consumer loans and a $15.4 million decrease in the indirect automobile loan portfolio.

Approximately $5.2 billion, or 43.6%, of the Corporation’s loan portfolio was in commercial mortgage and construction loans as of December 31, 2011. The Corporation does not have a concentration of credit risk with any single borrower, industry or geographical location. However, the performance of real estate markets and general economic conditions adversely impacted the performance of these loans throughout 2011.

Other Assets

Cash and due from banks increased $93.6 million, or 47.1%. Because of the 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 for the month of December, cash and due from banks increased $31.4 million, or 12.7%, from $247.6 million in 2010 to $279.0 million in 2011.

Other earning assets increased $105.1 million, or 89.7%, due to an increase in interest-bearing deposits with other banks. The Corporation's interest-bearing account with the Federal Reserve Bank increased $118.3 million, or 850.5%, at December 31, 2011, primarily due to the investment of excess funds generated from an increase in demand and savings deposits, combined with a decrease in investments. Partially offsetting this increase was a $36.9 million, or 44.0%, decrease in loans held for sale, mainly due to the Corporation's retention of certain residential mortgages in portfolio and a decrease in the volume of loans sold. Premises and equipment increased $4.3 million, or 2.0%. The increase reflects additions primarily for the construction of new branch facilities and information technology initiatives, offset by depreciation and the sales of branch and office facilities during 2011. Goodwill and intangible assets decreased $3.8 million, or 0.7%, due to the amortization of intangible assets.

Other assets increased $24.1 million, or 3.5%, to $706.6 million due primarily to a $38.7 million increase in receivables related to investment securities sales that had not settled at year-end. As of December 31, 2011, the Corporation had $181.6 million of such receivables outstanding, compared to $142.9 million as of December 31, 2010. Also contributing to the increase in other assets was a $16.8 million increase in Tax Credit Investments and a $4.0 million increase in net mortgage servicing rights. These increases were partially offset by a $13.3 million decrease in prepaid FDIC assessments which were amortized to expense in 2011, a $9.3 million decrease in federal taxes receivable due to overpayments in 2010 and a $5.4 million decrease in the fair value of mortgage banking derivative assets.

Deposits and Borrowings

Deposits increased $137.2 million, or 1.1%, to $12.5 billion as of December 31, 2011. During 2011, total non-interest and interest bearing demand and savings deposits increased $753.2 million, or 9.7%, and time deposits decreased $616.0 million, or 13.3%. Non-interest bearing accounts increased $393.0 million, or 17.9%, due primarily to a $330.1 million, or 21.7%, increase in business account balances. Interest-bearing accounts increased $360.1 million, or 6.5%, due to a $242.7 million, or 18.1%, increase in municipal account balances, which was largely due to attractive interest rates for insured deposits relative to non-bank alternatives, a $63.3 million, or 1.9%, increase in personal account balances and a $54.1 million, or 6.0%, increase in business account balances. Growth in business accounts was due, in part, to businesses maintaining higher balances to offset service fees, as well as a migration away from the Corporation’s cash management products due to the low interest rate environment. The increase in personal accounts was primarily due to a migration from customer certificates of deposit. The decrease in time deposits resulted from a $610.3 million, or 13.2%, decrease in customer certificates of deposit and a $5.7 million, or 100.0%, decrease in brokered certificates of deposit. The decrease in customer certificates of deposit was in accounts with original maturity terms of less than two years of $545.7 million, or 20.1%, and jumbo accounts of $55.1 million, or 21.7%.
Short-term borrowings decreased $77.0 million, or 11.4%, due to a decrease in short-term customer funding of $62.7 million, or 15.4%, and a decrease in Federal funds purchased of $14.4 million, or 5.4%. Long-term debt decreased $79.3 million, or 7.1%, as a result of the maturity of FHLB advances.

Other Liabilities

Other liabilities increased $2.3 million, or 1.1%. The increase was primarily due to a $15.5 million increase in the underfunded status of the Corporation's defined benefit pension plan, which was largely the result of a 125 basis point decrease in the discount rate used to calculate the projected benefit obligation. Also contributing to the increase in other liabilities was a $6.1 million increase in dividends payable to common shareholders due to the increase in the Corporation's fourth quarter dividend per share from $0.03 per share in 2010 to $0.06 cents in 2011. These increases were largely offset by a $24.5 million decrease in payables related to investment security purchases executed prior to year-end, but not settled until after year-end.

Shareholders’ Equity

Total shareholders’ equity increased $112.2 million, or 6.0%, to $2.0 billion, or 12.2% of total assets as of December 31, 2011. The increase was primarily due to $145.6 million of net income, partially offset by $40.0 million of dividends on common shares outstanding. Due to the earnings improvement achieved throughout 2011 and the strength of its capital, the Corporation increased its dividend to common shareholders to $0.20 cents per share in 2011, compared to $0.12 cents per share in 2010.

The Corporation and its subsidiary banks are subject to regulatory capital requirements administered by various banking regulators. Failure to meet minimum capital requirements can initiate certain actions by regulators that could have a material effect on the Corporation’s 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 December 31, 2011, the Corporation and each of its bank subsidiaries met the minimum capital requirements. In addition, all of the Corporation’s bank subsidiaries’ capital ratios exceeded the amounts required to be considered “well capitalized” as defined in the regulations. See also Note J, “Regulatory Matters,” in the Notes to Consolidated Financial Statements.

The following table summarizes the Corporation’s capital ratios in comparison to regulatory requirements at December 31:

| | 2011 | | 2010 | | Regulatory Minimum for Capital Adequacy | |
|---|---|---|---|---|---|---|
| Total capital (to risk weighted assets) | 15.2 | % | 14.2 | % | 8.0 | % |
| Tier I capital (to risk weighted assets) | 12.7 | % | 11.6 | % | 4.0 | % |
| Tier I capital (to average assets) | 10.3 | % | 9.4 | % | 4.0 | % |
| Tangible common equity to tangible assets (1) | 9.2 | % | 8.5 | % | N/A | |
| Tangible common equity to risk weighted assets (2) | 11.4 | % | 10.5 | % | N/A | |

(1) Ending common shareholders’ equity, net of goodwill and intangible assets, divided by ending assets, net of goodwill and intangible assets.
(2) Ending common shareholders’ equity, net of goodwill and intangible assets, divided by risk-weighted assets.
N/A - Not applicable.

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

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

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

Contractual Obligations and Off-Balance Sheet Arrangements

The Corporation has various financial obligations that require future cash payments. These obligations include the payment of liabilities recorded on the Corporation’s consolidated balance sheet as well as contractual obligations for purchased services or for operating leases.

The following table summarizes significant contractual obligations to third parties, by type, that were fixed and determinable as of December 31, 2011:

| | Payments Due In | | | | |
|---|---|---|---|---|---|
| | One Year or Less | One to Three Years | Three to Five Years | Over Five Years | Total |
| | (in thousands) | | | | |
| Deposits with no stated maturity (1) | $8,511,789 | $— | $— | $— | $8,511,789 |
| Time deposits (2) | 2,610,438 | 1,076,066 | 265,519 | 61,927 | 4,013,950 |
| Short-term borrowings (3) | 597,033 | — | — | — | 597,033 |
| Long-term debt (3) | 126,852 | 11,473 | 387,246 | 514,578 | 1,040,149 |
| Operating leases (4) | 15,981 | 27,240 | 21,784 | 64,061 | 129,066 |
| Purchase obligations (5) | 21,784 | 29,571 | 18,045 | — | 69,400 |
| Uncertain tax positions (6) | 9,438 | — | — | — | 9,438 |

(1) Includes demand deposits and savings accounts, which can be withdrawn by customers at any time.
(2) See additional information regarding time deposits in Note H, “Deposits,” in the Notes to Consolidated Financial Statements.

(3) See additional information regarding borrowings in Note I, “Short-Term Borrowings and Long-Term Debt,” in the Notes to Consolidated Financial Statements.

(4) See additional information regarding operating leases in Note N, “Leases,” in the Notes to Consolidated Financial Statements.

(5) Includes information technology, telecommunication and data processing outsourcing contracts.

(6) Includes accrued interest. See additional information related to uncertain tax positions in Note K, “Income Taxes,” in the Notes to Consolidated Financial Statements.

In addition to the contractual obligations listed in the preceding table, 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. These financial instruments include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit and interest rate risk that are not recognized on the consolidated balance sheets. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Standby letters of credit are conditional commitments issued to guarantee the financial or performance obligation of a customer to a third-party. Commitments and standby letters of credit do not necessarily represent future cash needs as they may expire without being drawn.

The following table presents the Corporation's commitments to extend credit and letters of credit as of December 31, 2011 (in thousands):

| | |
|---|---|
| Commercial mortgage and construction | $275,308 |
| Home equity | 1,019,470 |
| Commercial and other | 2,508,754 |
| Total commitments to extend credit | $3,803,532 |
| | |
| Standby letters of credit | $444,019 |
| Commercial letters of credit | 31,557 |
| Total letters of credit | $475,576 |

CRITICAL ACCOUNTING POLICIES

The following is a summary of those accounting policies that the Corporation considers to be most important to the portrayal of its financial condition and results of operations, as they require management's most difficult judgments as a result of the need to make estimates about the effects of matters that are inherently uncertain.

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 both on a recurring and nonrecurring basis into the above three levels. See Note P, "Fair Value Measurements" in the Notes to Consolidated Financial Statements for the disclosures required by FASB ASC Topic 820.

The determination of fair value for assets and liabilities categorized as Level 3 items involves a great deal of subjectivity due to the use of unobservable inputs. In addition, determining when a market is no longer active and placing little or no reliance on distressed market prices requires the use of management's judgment. The need for greater management judgment in determining fair values for Level 3 assets and liabilities has further been heightened by current economic conditions, which have created volatility in the fair values of certain investment securities.

The Corporation engages third-party valuation experts to assist in valuing most available-for-sale investment securities measured at fair value on a recurring basis which are classified as Level 2 or Level 3 items. The pricing data and market quotes the Corporation obtains from outside sources are reviewed internally for reasonableness.

Allowance for Credit Losses – The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheet. The allowance for credit losses is increased by charges to expense, through the provision for credit losses, and decreased by charge-offs, net of recoveries. Management believes that the allowance for loan losses and the reserve for unfunded lending commitments are adequate as of the balance sheet date; however, future changes to the allowance or reserve may be necessary based on changes in any of the factors discussed in the following paragraphs.

Maintaining an adequate allowance for credit losses is dependent upon various factors, including the ability to identify potential problem loans in a timely manner. For commercial loans, commercial mortgages and certain construction loans, an internal risk rating process, consisting of nine general classifications ranging from "excellent" to "loss," is used. Risk ratings are initially assigned to loans by loan officers and are reviewed on a regular basis by loan review staff. Ratings change if the ongoing monitoring procedures or specific loan review activities identify a deterioration or an improvement in the loan. While assigning risk ratings involves judgment, the risk rating process allows management to identify riskier credits in a timely manner and to allocate resources to managing troubled accounts.

The risk rating process is not practical for residential mortgages, home equity loans, consumer loans, installment loans and lease receivables, mainly because these portfolios consist of a larger number of loans with smaller balances. Instead, these portfolios are evaluated for risk mainly based on aggregate payment history, through the monitoring of delinquency levels and trends.

The Corporation's established methodology for evaluating the adequacy of the allowance for credit losses considers both components of the allowance: 1) specific allowances allocated to loans evaluated for impairment under FASB ASC Section 310-10-35; and 2) allowances calculated for pools of loans evaluated for impairment under FASB ASC Subtopic 450-20.

Effective April 1, 2011, the Corporation revised and enhanced its allowance for credit loss methodology. The change in methodology resulted in shifts in allocations by loan type, however, the total allowance for credit losses did not change as a result of implementing the new methodology.

A loan is considered to be impaired if it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. Beginning April 1, 2011, the population of loans evaluated for impairment under FASB ASC Section 310-10-35 includes only loans on non-accrual status and impaired troubled debt restructurings (Impaired TDRs). Impaired TDRs represent TDRs that were: (1) modified via a change in the interest rate that, at the time of restructuring, was favorable in comparison to rates offered for loans with similar risk characteristics; or (2) 90 days or more past due according to their modified terms; or (3) modified in the current calendar year. An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. Impaired loans with balances greater than $1.0 million are evaluated individually for impairment. Impaired loans with balances less than $1.0 million are pooled and measured for impairment collectively.

Beginning April 1, 2011, all loans evaluated for impairment under FASB ASC Section 310-10-35 are measured for losses on a quarterly basis. Measurement may be on a more frequent basis if there is a significant change in the amount or timing of an impaired loan's expected future cash flows, if actual cash flows are significantly different from the cash flows previously projected, or if the fair value of an impaired loan's collateral significantly changes. In addition, impaired loans secured predominately by real estate have updated certified third-party appraisals, generally every 12 months.

As of December 31, 2011 and 2010, substantially all of the Corporation's impaired loans with balances greater than $1.0 million 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 and industrial loans. Commercial and industrial loans may also be secured by real property.

For loans secured by real estate, estimated fair values are determined primarily through certified third-party appraisals. When a real estate-secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including: the age of the most recent appraisal; the loan-to-value ratio based on the original appraisal; the condition of the property; the Corporation's experience and knowledge of the market; the purpose of the loan; environmental factors; payment status; the strength of any guarantors; and the existence and age of other indications of value such as broker price opinions, among others.

As of December 31, 2011 and 2010, approximately 78% and 52%, respectively, of impaired loans secured by real estate with principal balances greater than $1 million were measured at estimated fair value using certified third-party appraisals that had been updated within the preceding 12 months. The fair value of collateral is generally based on appraised values, discounted to arrive at expected sale prices, net of estimated selling costs.

Where updated certified appraisals are not obtained for loans evaluated for impairment under FASB ASC Section 310-10-35 that are secured by real estate, fair values are estimated based on one or more of the following:

- Original appraisal – if the original appraisal indicated a very strong loan to value position and, in the opinion of the Corporation's internal loan evaluation staff, there has not been a significant deterioration in the collateral value, the original appraisal may be used to support the value of the collateral. Appropriate discounts are applied to the appraised value to adjust for market changes since the date the appraisal was completed, to arrive at an estimated selling price for the collateral. Original appraisals are typically used only when the estimated collateral value, as adjusted, results in a current loan to value ratio that is lower than the Corporation's policy for new loans, generally 80%.
- Broker price opinions – in lieu of obtaining an updated certified appraisal, a less formal indication of value, such as a broker price opinion, may be obtained. These opinions are generally used to validate internal estimates of collateral value and are not relied upon as the sole determinant of fair value.
- Discounted cash flows – while substantially all of the Corporation's impaired loans are measured based on the estimated fair value of collateral, discounted cash flows analyses may be used to validate estimates of collateral value derived from other approaches.

For impaired loans with principal balances greater than $1 million secured by non-real estate collateral, such as accounts receivable or inventory, estimated fair values are determined based on borrower financial statements, inventory listings, accounts receivable agings or borrowing base certificates. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets. Liquidation or collection discounts are applied to these assets based upon existing loan evaluation policies.

All loans not evaluated for impairment under FASB ASC Section 310-10-35 are evaluated for impairment under FASB ASC Subtopic 450-20, using a pooled loss evaluation approach. In general, these loans include residential mortgages, home equity loans, consumer loans, and lease receivables. Accruing commercial loans, commercial mortgages and construction loans are also evaluated for impairment under FASB ASC Subtopic 450-20.

The Corporation evaluates loans for impairment under FASB ASC Subtopic 450-20 through the following procedures:

- The loans are segmented into pools with similar characteristics, such as general loan type, secured or unsecured and type of collateral. Commercial loans, commercial mortgages and certain construction loans are further segmented into separate pools based on internally assigned risk ratings. Residential mortgages, home equity loans, consumer loans, and lease receivables are further segmented into separate pools based on delinquency status.

- A loss rate is calculated for each pool based on a probability of default (PD) and a loss given default (LGD) using historical losses as loans migrate through the various risk rating or delinquency categories.
- The loss rate is adjusted to consider qualitative factors, such as economic conditions and trends.
- The resulting adjusted loss rate is applied to the balance of the loans in the pool to arrive at the allowance allocation for the pool.

The allocation of the allowance for credit losses is reviewed to evaluate its appropriateness in relation to the overall risk profile of the loan portfolio. The Corporation considers risk factors such as: local and national economic conditions; trends in delinquencies and non-accrual loans; the diversity of borrower industry types; and the composition of the portfolio by loan type. An unallocated allowance is maintained for factors and conditions that exist at the balance sheet date, but are not specifically identifiable, and to recognize the inherent imprecision in estimating and measuring loss exposure.

Loans and lease financing receivables deemed to be a loss are written off through a charge against the allowance for credit losses. Closed-end consumer loans are generally charged off when they become 120 days past due (180 days for open-end consumer loans) if they are not adequately secured by real estate. All other loans are evaluated for possible charge-off when it is probable that the balance will not be collected, based on the ability of the borrower to pay and the value of the underlying collateral. Recoveries of loans previously charged off are recorded as increases to the allowance for loan losses. Past due status is determined based on contractual due dates for loan payments.

See Note A, "Summary of Significant Accounting Policies" and Note D, "Loans and Allowance for Credit Losses," in the Notes to Consolidated Financial Statements for additional details.

Troubled Debt Restructurings – Loans whose terms are modified are classified as troubled debt restructurings (TDRs) if the Corporation grants the borrowers concessions and it is deemed that those borrowers are experiencing financial difficulty. Concessions granted under a TDR typically involve a temporary deferral of scheduled loan payments, an extension of a loan's stated maturity date or a reduction in the interest rate. Non-accrual TDRs can be restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification. TDRs are evaluated for impairment under FASB ASC Section 310-10-35.

Effective July 1, 2011, the Corporation adopted the provisions of ASC Update 2011-02, "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." ASC Update 2011-02 provides additional guidance for when a creditor has granted a concession and whether a debtor is experiencing financial difficulty. This standards update was effective for the first interim or annual period beginning on or after June 15, 2011, and was applied retrospectively to January 1, 2011. The adoption of ASC Update 2011-02 did not impact the Corporation's financial statements.

See Note D, "Loans and Allowance for Credit Losses," in the Notes to Consolidated Financial Statements for additional details.

Business Combinations and Intangible Assets – The Corporation accounts for all business acquisitions using the purchase method of accounting. Purchase accounting requires that all assets acquired and liabilities assumed, including certain intangible assets that must be recognized, be recorded at their estimated fair values. Any purchase price exceeding the fair value of net assets acquired is recorded as goodwill.

Goodwill is not amortized to expense, but is tested at least annually for impairment. The Corporation completes its annual goodwill impairment test as of October 31st of each year. The Corporation tests for impairment by first allocating its goodwill and other assets and liabilities, as necessary, to defined reporting units. A fair value is then determined for each reporting unit. If the fair values of the reporting units exceed their book values, no write-down of the recorded goodwill is necessary. If the fair values are less than the book values, an additional valuation procedure is necessary to assess the proper carrying value of the goodwill. The Corporation determined that no impairment charges were necessary in 2011, 2010 or 2009. For additional details related to the goodwill impairment test, see Note F, "Goodwill and Intangible Assets" in the Notes to Consolidated Financial Statements.

Reporting unit valuation is inherently subjective, with a number of factors based on assumptions and management judgments. Among these are future growth rates for the reporting units, selection of comparable market transactions, discount rates and earnings capitalization rates. Changes in assumptions and results due to economic conditions, industry factors and reporting unit performance and cash flow projections could result in different assessments of the

fair values of reporting units and could result in impairment charges.
If an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount, an interim impairment test is required. Such events may include adverse changes in legal factors or in the business climate, adverse actions by a regulator, unanticipated competition, the loss of key employees, or similar events.

Intangible assets are amortized over their estimated lives. Some intangible assets have indefinite lives and are, therefore, not amortized. All intangible assets must be evaluated for impairment if certain events occur. Any impairment write-downs are recognized as expense on the consolidated statements of income.

Income Taxes – The provision for income taxes is based upon income before income taxes, adjusted for the effect of certain tax-exempt income, non-deductible expenses and credits. In addition, certain items of income and expense are reported in different periods for financial reporting and tax return purposes. The tax effects of these temporary differences are recognized currently in the deferred income tax provision or benefit. Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities using the applicable enacted marginal tax rate.

The Corporation must also evaluate the likelihood that deferred tax assets will be recovered through future taxable income. If any such assets are more likely than not to not be recovered, a valuation allowance must be recognized. The Corporation recorded a valuation allowance of $17.3 million as of December 31, 2011 for certain state net operating losses and temporary differences that are not expected to be recovered. The assessment of the carrying value of deferred tax assets is based on certain assumptions, changes in which could have a material impact on the Corporation's consolidated financial statements.

The Corporation accounts for uncertain tax positions by applying a recognition threshold and measurement attribute for tax positions taken or expected to be taken in a tax return. Recognition and measurement of tax positions is based on management's evaluations of relevant tax code and appropriate industry information about audit proceedings for comparable positions at other organizations. Virtually all of the Corporation's unrecognized tax benefits are for positions that are taken on an annual basis on state tax returns. Increases to unrecognized tax benefits will occur as a result of accruing for the nonrecognition of the position for the current year. Decreases will occur as a result of the lapsing of the statute of limitations for the oldest outstanding year which includes the position.

See also Note K, "Income Taxes," in the Notes to Consolidated Financial Statements.

New Accounting Standards

In May 2011, the FASB issued ASC Update 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." ASC Update 2011-04 amends fair value measurement and disclosure requirements in U.S. GAAP for the purpose of improving the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards (IFRS). Among the amendments in ASC Update 2011-04 are expanded disclosure requirements that require companies to quantitatively disclose inputs used in Level 3 fair value measurements and to disclose the sensitivity of fair value measurement to changes in unobservable inputs. This standards update is effective for the first interim or annual period beginning on or after December 15, 2011. For the Corporation, this standards update is effective in connection with its March 31, 2012 interim filing on Form 10-Q. The adoption of ASC Update 2011-04 is not expected to materially impact the Corporation's financial statements.

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

In December 2011, the FASB issued ASC Update 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." ASC Update 2011-12 defers the effective date of the requirement to present separate line items on the income statement for reclassification adjustments of items out of accumulated other comprehensive income into net income under ASC Update 2011-05. This deferral is temporary until the FASB reconsiders the operational concerns and needs of financial statement users.

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

## Item 7A. 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 price 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. As of December 31, 2011, the Corporation's equity investments consisted of $82.5 million of Federal Home Loan Bank (FHLB) and Federal Reserve Bank stock, $27.9 million of common stocks of publicly traded financial institutions and $6.7 million of other equity investments. The equity investments most susceptible to market price risk are the financial institutions stocks, which had a cost basis of $28.3 million and a fair value of $27.9 million as of December 31, 2011. Gross unrealized gains and gross unrealized losses in this portfolio were approximately $2.4 million and $2.8 million as of December 31, 2011, respectively.

The Corporation has evaluated whether any unrealized losses on individual equity investments constituted other-than-temporary impairment, which would require a write-down through a charge to earnings. Based on the results of such evaluations, the Corporation recorded write-downs of $1.2 million in 2011, $2.0 million in 2010, and $3.8 million in 2009 for financial institutions stocks which were deemed to exhibit other-than-temporary impairment in value. In 2009, the Corporation also recorded a $106,000 other-than-temporary impairment charge for a mutual fund equity investment. Additional impairment charges may be necessary depending upon the performance of the equity markets in general and the performance of the individual investments held by the Corporation. See also Note C, "Investment Securities," in the Notes to Consolidated Financial Statements.

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.

Another source of equity market price risk is the Corporation's investment in FHLB stock, which the Corporation is required to own in order to borrow funds from the FHLB. As of December 31, 2011, the Corporation's investment in FHLB stock was $63.3 million. FHLBs obtain funding primarily through the issuance of consolidated obligations of the FHLB system. The U.S. government does not guarantee these obligations, and each of the FHLB banks is, generally, jointly and severally liable for repayment of each other's debt. The FHLB system has experienced financial stress, and some of the regional banks within the FHLB system have suspended or reduced their dividends, or eliminated the ability of members to redeem capital stock. The Corporation's FHLB stock and its ability to obtain FHLB funds could be adversely impacted if the financial health of the FHLB system worsens.

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

### Debt Security Market Price Risk

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

#### Municipal Securities

As of December 31, 2011, the Corporation had $322.0 million of municipal securities issued by various municipalities in its investment portfolio. Ongoing uncertainty with respect to the financial viability of municipal insurers places much greater emphasis on the underlying strength of issuers. Continued pressure on local tax revenues of issuers due to adverse economic conditions could also have an adverse impact on the underlying strength of issuers. The Corporation evaluates existing and potential holdings primarily on the creditworthiness of the issuing municipality and then, to a lesser extent, on the underlying credit enhancement.

As of December 31, 2011, approximately 94% of municipal securities were supported by the general obligation of corresponding municipalities. In addition, approximately 72% of these securities were school district issuances that are also supported by the states of the issuing municipalities.

Auction Rate Certificates

As of December 31, 2011, the Corporation's investments in student loan auction rate securities, also known as auction rate certificates (ARCs), had a cost basis of $240.9 million and a fair value of $225.2 million.

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

The credit quality of the underlying debt associated with the ARCs is also a factor in the determination of their estimated fair value. As of December 31, 2011, approximately $177 million, or 79%, of the ARCs were rated above investment grade, with approximately $135 million, or 60%, AAA rated. Approximately $48 million, or 21%, of ARCs were either not rated or rated below investment grade by at least one ratings agency. Of this amount, approximately $28 million, or 59%, of the loans underlying these ARCs have principal payments which are guaranteed by the federal government. In total, approximately $202 million, or 90%, of the loans underlying the ARCs have principal payments which are guaranteed by the federal government. At December 31, 2011, all ARCs were current and making scheduled interest payments.

During the year ended December 31, 2011, the Corporation recorded $292,000 of other-than-temporary impairment charges for two individual ARCs based on an expected cash flow model. As of December 31, 2011, after other-than-temporary impairment charges, the two other-than-temporarily impaired ARCs had a cost basis of $1.6 million and a fair value of $1.1 million. These other-than-temporarily impaired ARCs have principal payments supported by non-guaranteed private student loans, as opposed to federally guaranteed student loans. The student loans underlying these other-than-temporarily impaired ARCs had actual defaults of approximately 18%, resulting in an erosion of parity ratios, which is calculated as the outstanding principal and capitalized interest of the student loans divided by the amount outstanding of the notes. Parity ratios for these other-than-temporarily impaired ARCs were approximately 83% as of December 31, 2011. Additional impairment charges for ARCs may be necessary depending upon the performance of the individual investments held by the Corporation.

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:

| | December 31, 2011 | |
|---|---|---|
| | Amortized Cost | Estimated Fair Value |
| | (in thousands) | |
| Single-issuer trust preferred securities | $83,899 | $74,365 |
| Subordinated debt | 40,184 | 41,296 |
| Pooled trust preferred securities | 6,236 | 5,109 |
| Corporate debt securities issued by financial institutions | $130,319 | $120,770 |

The fair values for pooled trust preferred securities and certain single-issuer trust preferred securities were based on quotes provided by third-party brokers who determined fair values based predominantly on internal valuation models which were not indicative prices or binding offers.

The Corporation’s investments in single-issuer trust preferred securities had an unrealized loss of $9.5 million as of December 31, 2011. The Corporation did not record any other-than-temporary impairment charges for single-issuer trust preferred securities in 2011, 2010 or 2009. The Corporation held 12 single-issuer trust preferred securities that were rated below investment grade by at least one ratings agency, with an amortized cost of $41.1 million and an estimated fair value of $38.7 million as of December 31, 2011. The majority of the single-issuer trust preferred securities rated below investment grade were rated BB or Ba. Single-issuer trust preferred securities with an amortized cost of $8.3 million and an estimated fair value of $6.5 million as of December 31, 2011 were not rated by any ratings agency.

The Corporation held ten pooled trust preferred securities as of December 31, 2011. Nine of these securities, with an amortized cost of $5.8 million and an estimated fair value of $4.7 million, were rated below investment grade by at least one ratings agency, with ratings ranging from C to Ca. For each of the nine pooled trust preferred securities rated below investment grade, the class of securities held by the Corporation was below the most senior tranche, with the Corporation's interests being subordinate to other investors in the pool.

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 flow model. The most significant input to the expected cash flow model is the expected payment deferral rate for each pooled trust preferred security. The Corporation evaluates the financial metrics, such as capital ratios and non-performing asset ratios, of the individual financial institution issuers that comprise each pooled trust preferred security to estimate its expected deferral rate. The actual weighted average cumulative defaults and deferrals as a percentage of original collateral were approximately 38% as of December 31, 2011. The discounted cash flow modeling for pooled trust preferred securities held by the Corporation as of December 31, 2011 assumed, on average, an additional 17% expected deferral rate.

Additional impairment charges for corporate debt securities issued by financial institutions 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 see Note P, "Fair Value Measurements," in the Notes to Consolidated Financial Statements for further discussion related to the fair values of debt securities.

Interest Rate Risk, Asset/Liability Management and Liquidity

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 interest 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 regular 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.

From a liquidity standpoint, 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 and long-term needs.

The consolidated statements of cash flows provide details related to the Corporation's sources and uses of cash. The Corporation generated $372.0 million in cash from operating activities during 2011, mainly due to net income, as adjusted for non-cash charges, most notably the provision for credit losses. Investing activities resulted in a net cash outflow of $231.8 million in 2011 due to a net increase in loans and short-term investments, partially offset by sales and maturities of investments exceeding reinvestments in the portfolio. Financing activities resulted in a net cash outflow of $46.6 million in 2011 as a result of repayments of short-term borrowings and long-term debt and dividends paid on common shares outstanding exceeding cash inflows from deposit increases and additions to long-term debt.

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. The Parent Company meets its cash needs through dividends and loans from subsidiary banks, and through external borrowings, if necessary. Management continuously monitors the liquidity and capital needs of the Parent Company and will implement appropriate strategies, as necessary, to meet regulatory

capital requirements and to meet its cash needs.
As of December 31, 2011, liquid assets (defined as cash and due from banks, short-term investments, deposits in other financial institutions, Federal funds sold, mortgages available for sale, securities available for sale, and non-mortgage-backed securities held to maturity due in one year or less) totaled $3.0 billion, or 18.4% of total assets, as compared to $3.1 billion, or 19.3% of total assets, as of December 31, 2010.

The following tables present the expected maturities of investment securities as of December 31, 2011 and the weighted average yields of such securities (calculated based on historical cost):

HELD TO MATURITY (at amortized cost)

| | MATURING | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Within One Year | | After One But Within Five Years | | After Five But Within Ten Years | | After Ten Years | |
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield |
| | (dollars in thousands) | | | | | | | |
| U.S. Government sponsored agency securities | $— | — % | $5,987 | 0.50 % | $— | — % | $— | — % |
| State and municipal (1) | 179 | 5.58 | — | — | — | — | — | — |
| Total | $179 | 5.58 % | $5,987 | 0.50 % | $— | — % | $— | — % |
| Mortgage-backed securities (2) | $503 | 6.37 % | | | | | | |

AVAILABLE FOR SALE (at estimated fair value)

| | MATURING | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Within One Year | | After One But Within Five Years | | After Five But Within Ten Years | | After Ten Years | |
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield |
| | (dollars in thousands) | | | | | | | |
| U.S. Government securities | $334 | 0.11 % | $— | — % | $— | — % | $— | — % |
| U.S. Government sponsored agency securities (3) | — | — | 3,651 | 2.09 | 239 | 1.51 | 183 | 3.06 |
| State and municipal (1) | 67,468 | 3.90 | 27,797 | 4.86 | 112,650 | 6.06 | 114,103 | 6.65 |
| Auction rate securities (4) | — | — | — | — | — | — | 225,211 | 1.38 |
| Corporate debt securities | — | — | 655 | 2.43 | 41,296 | 4.75 | 81,355 | 4.74 |
| Total | $67,802 | 3.89 % | $32,103 | 4.49 % | $154,185 | 5.69 % | $420,852 | 3.37 % |
| Collateralized mortgage obligations (2) | $1,001,209 | 2.70 % | | | | | | |
| Mortgage-backed securities (2) | $880,097 | 3.34 % | | | | | | |

(1) Weighted average yields on tax-exempt securities have been computed on a fully taxable-equivalent basis assuming a tax rate of 35% and statutory interest expense disallowances.

(2) Maturities for mortgage-backed securities and collateralized mortgage obligations are dependent upon the interest rate environment and prepayments on the underlying loans. For the purpose of this table, the entire balance and weighted average rate is shown in one period.

(3) Includes Small Business Administration securities, whose maturities are dependent upon prepayments on the underlying loans. For the purpose of this table, amounts are based upon contractual maturities.

(4) Maturities of auction rate securities are based on contractual maturities.

The Corporation’s investment portfolio consists mainly of mortgage-backed securities and collateralized mortgage obligations which have stated maturities that may differ from actual maturities due to borrowers’ ability to prepay obligations. Cash flows from such investments are dependent upon the performance of the underlying mortgage loans and are generally influenced by the level of interest rates. As rates increase, cash flows generally decrease as prepayments on the underlying mortgage loans decrease. As rates decrease, cash flows generally increase as prepayments increase.

The following table presents the approximate contractual maturity and interest rate sensitivity of certain loan types subject to changes in interest rates as of December 31, 2011:

| | One Year or Less | One Through Five Years | More Than Five Years | Total |
|---|---|---|---|---|
| | (in thousands) | | | |
| Commercial, financial and agricultural: | | | | |
| Adjustable and floating rate | $541,442 | $1,800,438 | $404,214 | $2,746,094 |
| Fixed rate | 216,250 | 553,934 | 123,090 | 893,274 |
| Total | $757,692 | $2,354,372 | $527,304 | $3,639,368 |
| Real estate – mortgage (1): | | | | |
| Adjustable and floating rate | $971,061 | $2,796,213 | $1,944,516 | $5,711,790 |
| Fixed rate | 310,574 | 1,010,519 | 291,467 | 1,612,560 |
| Total | $1,281,635 | $3,806,732 | $2,235,983 | $7,324,350 |
| Real estate – construction: | | | | |
| Adjustable and floating rate | $211,243 | $149,848 | $42,140 | $403,231 |
| Fixed rate | 68,731 | 97,021 | 46,462 | 212,214 |
| Total | $279,974 | $246,869 | $88,602 | $615,445 |

(1) Includes commercial mortgages, residential mortgages and home equity loans.

Contractual maturities of time deposits of $100,000 or more outstanding as of December 31, 2011 are as follows (in thousands):

| | |
|---|---|
| Three months or less | $275,479 |
| Over three through six months | 251,581 |
| Over six through twelve months | 473,365 |
| Over twelve months | 483,885 |
| Total | $1,484,310 |

The Corporation maintains liquidity sources in the form of “core” demand and savings deposits, time deposits in various denominations, including jumbo and brokered time deposits, repurchase agreements and short-term promissory notes. Borrowing availability with the FHLB and Federal Reserve Bank, along with Federal funds lines at various correspondent banks, provides the Corporation with additional liquidity.

Each of the Corporation’s subsidiary banks is a member of the FHLB and has access to FHLB overnight and term credit facilities. As of December 31, 2011, the Corporation had $666.6 million of term advances outstanding from the FHLB with an additional borrowing capacity of approximately $970 million of under these facilities.

A combination of commercial real estate loans, commercial loans and securities are pledged to the Federal Reserve Bank of Philadelphia to provide access to the Federal Reserve Bank Discount Window borrowings. As of December 31, 2011, the Corporation had $1.7 billion of collateralized borrowing availability at the Discount Window, and no outstanding borrowings.

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 of the Corporation’s significant interest rate sensitive financial instruments, by expected maturity period. None of the Corporation's financial instruments are classified as trading. All dollars amounts are in thousands.

| | Expected Maturity Period | | | | | | | Estim |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | Beyond | Total | Fair V |
| Fixed rate loans (1) | $1,038,969 | $486,060 | $365,640 | $295,544 | $232,089 | $629,470 | $3,047,772 | $3,11 |
| Average rate | 3.86 % | 5.90 % | 5.88 % | 5.71 % | 5.78 % | 5.23 % | 5.04 % | |
| Floating rate loans (1) (2) | 1,736,371 | 1,096,175 | 958,162 | 865,252 | 1,863,271 | 2,386,521 | 8,905,752 | 8,867 |
| Average rate | 4.57 % | 4.69 % | 4.72 % | 4.70 % | 4.24 % | 5.04 % | 4.67 % | |
| Fixed rate investments (3) | 585,652 | 384,010 | 260,013 | 201,301 | 163,906 | 624,119 | 2,219,001 | 2,287 |
| Average rate | 3.79 % | 3.91 % | 3.92 % | 3.90 % | 3.92 % | 3.54 % | 3.78 % | |
| Floating rate investments (3) | — | — | 240,852 | 134 | 4,905 | 57,517 | 303,408 | 275,6 |
| Average rate | — | — | 2.96 % | 1.60 % | 1.24 % | 2.42 % | 2.83 % | |
| Other interest-earning assets | 222,345 | — | — | — | — | — | 222,345 | 222,3 |
| Average rate | 1.19 % | — | — | — | — | — | 1.19 % | |
| Total | $3,583,337 | $1,966,245 | $1,824,667 | $1,362,231 | $2,264,171 | $3,697,627 | $14,698,278 | $14,7 |
| Average rate | 4.03 % | 4.84 % | 4.61 % | 4.80 % | 4.37 % | 4.78 % | 4.52 % | |
| | | | | | | | | |
| Fixed rate deposits (4) | $2,123,864 | $796,654 | $277,503 | $ | | | | |