FULTON FINANCIAL CORP
Form 10-Q
November 09, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012, or

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

For the transition period from to

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

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
Common Stock, $2.50 Par Value – 199,109,000 shares outstanding as of October 31, 2012.

FULTON FINANCIAL CORPORATION
FORM 10-Q FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2012
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Item 1. Financial Statements

FULTON FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS

(in thousands, except per-share data)

	September 30, 2012 (unaudited)	December 31, 2011
ASSETS		
Cash and due from banks	$217,207	$292,598
Interest-bearing deposits with other banks	202,305	175,336
Loans held for sale	85,477	47,009
Investment securities:		
Held to maturity (estimated fair value of $487 in 2012 and $6,699 in 2011)	454	6,669
Available for sale	2,789,684	2,673,298
Loans, net of unearned income	11,933,001	11,968,970
Less: Allowance for loan losses	(233,864)	(256,471)
Net Loans	11,699,137	11,712,499
Premises and equipment	225,771	212,274
Accrued interest receivable	49,784	51,098
Goodwill	535,959	536,005
Intangible assets	5,886	8,204
Other assets	461,465	655,518
Total Assets	$16,273,129	$16,370,508
LIABILITIES		
Deposits:		
Noninterest-bearing	$2,903,591	$2,588,034
Interest-bearing	9,697,719	9,937,705
Total Deposits	12,601,310	12,525,739
Short-term borrowings:		
Federal funds purchased	170,261	253,470
Other short-term borrowings	316,710	343,563
Total Short-Term Borrowings	486,971	597,033
Accrued interest payable	21,818	25,686
Other liabilities	193,724	189,362
Federal Home Loan Bank advances and long-term debt	908,623	1,040,149
Total Liabilities	14,212,446	14,377,969
SHAREHOLDERS' EQUITY		
Common stock, $2.50 par value, 600 million shares authorized, 216.7 million shares issued in 2012 and 216.2 million shares issued in 2011	541,820	540,386
Additional paid-in capital	1,425,801	1,423,727
Retained earnings	339,638	264,059
Accumulated other comprehensive income	11,807	7,955
Treasury stock, at cost, 17.8 million shares in 2012 and 16.0 million shares in 2011	(258,383)	(243,588)
Total Shareholders' Equity	2,060,683	1,992,539
Total Liabilities and Shareholders' Equity	$16,273,129	$16,370,508

See Notes to Consolidated Financial Statements

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

(in thousands, except per-share data)

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
INTEREST INCOME				
Loans, including fees	$140,511	$149,460	$426,398	$448,707
Investment securities:				
Taxable	16,658	20,166	53,943	62,722
Tax-exempt	2,558	2,896	7,855	9,217
Dividends	720	698	2,060	2,077
Loans held for sale	578	425	1,547	1,417
Other interest income	35	91	133	225
Total Interest Income	161,060	173,736	491,936	524,365
INTEREST EXPENSE				
Deposits	13,848	19,684	44,841	64,745
Short-term borrowings	220	151	912	573
Long-term debt	11,111	12,408	34,077	37,346
Total Interest Expense	25,179	32,243	79,830	102,664
Net Interest Income	135,881	141,493	412,106	421,701
Provision for credit losses	23,000	31,000	76,500	105,000
Net Interest Income After Provision for Credit Losses	112,881	110,493	335,606	316,701
NON-INTEREST INCOME				
Service charges on deposit accounts	15,651	15,164	45,860	42,801
Other service charges and fees	11,119	12,507	33,181	36,698
Mortgage banking income	10,594	7,942	31,787	19,454
Investment management and trust services	9,429	8,914	28,628	27,756
Other	5,169	4,055	14,761	11,163
Investment securities gains (losses), net:				
Other-than-temporary impairment losses	(43)	(509)	(100)	(1,601)
Less: Portion of gain recognized in other comprehensive income (before taxes)	—	(80)	—	(672)
Net other-than-temporary impairment losses	(43)	(589)	(100)	(2,273)
Net gains on sales of investment securities	85	146	2,931	3,780
Investment securities gains (losses), net	42	(443)	2,831	1,507
Total Non-Interest Income	52,004	48,139	157,048	139,379
NON-INTEREST EXPENSE				
Salaries and employee benefits	62,161	58,948	182,612	169,326
Net occupancy expense	11,161	10,790	33,301	33,030
Other outside services	4,996	1,846	11,782	5,256
Equipment expense	3,816	3,032	10,370	9,541
Data processing	3,776	3,473	11,223	10,059
FDIC insurance expense	3,029	3,732	9,052	11,750
Professional fees	2,728	3,247	8,294	9,198
Software	2,511	2,142	6,958	6,146
Other real estate owned and repossession expense	2,096	2,548	7,847	4,801
Operating risk loss	1,404	776	6,827	306
Intangible amortization	756	953	2,318	3,303

Marketing	648	1,923	5,703	6,622
Other	10,961	12,457	36,610	38,278
Total Non-Interest Expense	110,043	105,867	332,897	307,616
Income Before Income Taxes	54,842	52,765	159,757	148,464
Income taxes	13,260	13,441	40,152	38,970
Net Income	$41,582	$39,324	$119,605	$109,494
PER SHARE:				
Net Income (Basic)	$0.21	$0.20	$0.60	$0.55
Net Income (Diluted)	0.21	0.20	0.60	0.55
Cash Dividends	0.08	0.05	0.22	0.14

See Notes to Consolidated Financial Statements

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

(in thousands)

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
Net Income	$41,582	$39,324	$119,605	$109,494
Other Comprehensive Income (Loss), net of tax:				
Unrealized gain (loss) on securities	10,834	(1,876)	4,714	15,143
Reclassification adjustment for securities (gains) losses included in net income	(28)	288	(1,840)	(979)
Non-credit related unrealized gain (loss) on other-than-temporarily impaired debt securities	271	(542)	234	187
Unrealized gain on derivative financial instruments	34	34	102	102
Amortization (accretion) of net unrecognized pension and postretirement items	214	(13)	642	(37)
Other Comprehensive Income (Loss)	11,325	(2,109)	3,852	14,416
Total Comprehensive Income	$52,907	$37,215	$123,457	$123,910

See Notes to Consolidated Financial Statements

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FULTON FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)
NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011

(in thousands, except per-share data)

	Common Stock						
	Shares Outstanding	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2011	200,164	$540,386	$1,423,727	$264,059	$ 7,955	$(243,588)	$1,992,539
Net income				119,605			119,605
Other comprehensive income					3,852		3,852
Stock issued, including related tax benefits	926	1,434	(1,889)			5,565	5,110
Stock-based compensation awards			3,963				3,963
Acquisition of treasury stock	(2,115)					(20,360)	(20,360)
Common stock cash dividends - $0.22 per share				(44,026)			(44,026)
Balance at September 30, 2012	198,975	$541,820	$1,425,801	$339,638	$ 11,807	$(258,383)	$2,060,683
Balance at December 31, 2010	199,050	$538,492	$1,420,127	$158,453	$ 12,495	$(249,178)	$1,880,389
Net income				109,494			109,494
Other comprehensive income					14,416		14,416
Stock issued, including related tax benefits	841	1,508	(451)			3,791	4,848
Stock-based compensation awards			3,473				3,473
Common stock cash dividends - $0.14 per share				(27,961)			(27,961)
Balance at September 30, 2011	199,891	$540,000	$1,423,149	$239,986	$ 26,911	$(245,387)	$1,984,659

See Notes to Consolidated Financial Statements

FULTON FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Nine months ended September 30	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$119,605	$109,494
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	76,500	105,000
Depreciation and amortization of premises and equipment	16,735	15,824
Net amortization of investment securities premiums	8,039	2,596
Investment securities gains, net	(2,831)	(1,507)
Net (increase) decrease in loans held for sale	(38,468)	20,386
Amortization of intangible assets	2,318	3,303
Stock-based compensation	3,963	3,473
Excess tax benefits from stock-based compensation	(25)	—
Decrease in accrued interest receivable	1,314	1,381
Decrease in other assets	12,498	13,599
Decrease in accrued interest payable	(3,868)	(5,655)
Decrease in other liabilities	(1,966)	(18,862)
Total adjustments	74,209	139,538
Net cash provided by operating activities	193,814	249,032
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available for sale	225,539	419,803
Proceeds from maturities of securities held to maturity	228	388
Proceeds from maturities of securities available for sale	644,055	440,475
Purchase of securities held to maturity	(346)	(28)
Purchase of securities available for sale	(796,656)	(616,586)
Decrease in short-term investments	(26,969)	(223,063)
Net increase in loans	(63,440)	(74,029)
Net purchases of premises and equipment	(30,232)	(13,978)
Net cash used in investing activities	(47,821)	(67,018)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand and savings deposits	510,523	728,652
Net decrease in time deposits	(434,952)	(479,609)
Decrease in short-term borrowings	(110,062)	(225,122)
Repayments of long-term debt	(131,526)	(93,945)
Net proceeds from issuance of stock	5,085	4,848
Excess tax benefits from stock-based compensation	25	—
Dividends paid	(40,117)	(23,922)
Acquisition of treasury stock	(20,360)	—
Net cash used in financing activities	(221,384)	(89,098)
Net (Decrease) Increase in Cash and Due From Banks	(75,391)	92,916
Cash and Due From Banks at Beginning of Period	292,598	198,954
Cash and Due From Banks at End of Period	$217,207	$291,870
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		

Interest	$83,698	$108,319
Income taxes	22,747	21,216

See Notes to Consolidated Financial Statements

FULTON FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A – Basis of Presentation
The accompanying unaudited consolidated financial statements of Fulton Financial Corporation (the Corporation) have been prepared in conformity with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities as of the date of the financial statements as well as revenues and expenses during the period. Actual results could differ from those estimates. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine-month periods ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. The Corporation evaluates subsequent events through the date of filing with the Securities and Exchange Commission (SEC).

NOTE B – Net Income Per Share
Basic net income per common share is calculated as net income divided by the weighted average number of common shares outstanding.
For diluted net income per common share, net income is divided by the weighted average number of common shares outstanding plus the incremental number of shares added as a result of converting common stock equivalents, calculated using the treasury stock method. The Corporation's common stock equivalents consist of outstanding stock options and restricted stock.
A reconciliation of weighted average common shares outstanding used to calculate basic net income per common share and diluted net income per common share follows for the three and nine months ended September 30:

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
	(in thousands)			
Weighted average shares outstanding (basic)	198,956	199,028	199,371	198,801
Effect of dilutive securities	852	786	950	743
Weighted average shares outstanding (diluted)	199,808	199,814	200,321	199,544

For the three and nine months ended September 30, 2012, 5.2 million stock options were excluded from the diluted net income per share computation as their effect would have been anti-dilutive. For the three and nine months ended September 30, 2011, 5.8 million and 5.0 million stock options, respectively, were excluded from the diluted net income per share computation as their effect would have been anti-dilutive.

NOTE C – Accumulated Other Comprehensive Income

The following table presents changes in other comprehensive income for the three and nine months ended September 30, 2012 and 2011:

	Before-Tax Amount	Tax Effect	Net of Tax Amount
	(in thousands)		
Three months ended September 30, 2012			
Unrealized gain (loss) on securities	$16,668	$(5,834)	$10,834
Reclassification adjustment for securities (gains) losses included in net income	(43)	15	(28)
Non-credit related unrealized gain (loss) on other-than-temporarily impaired debt securities	417	(146)	271
Unrealized gain on derivative financial instruments	52	(18)	34
Amortization (accretion) of net unrecognized pension and postretirement items	329	(115)	214
Total Other Comprehensive Income (Loss)	$17,423	$(6,098)	$11,325
Three months ended September 30, 2011			
Unrealized gain (loss) on securities	$(2,886)	$1,010	$(1,876)
Reclassification adjustment for securities (gains) losses included in net income	443	(155)	288
Non-credit related unrealized gain (loss) on other-than-temporarily impaired debt securities	(834)	292	(542)
Unrealized gain on derivative financial instruments	52	(18)	34
Amortization (accretion) of net unrecognized pension and postretirement items	(20)	7	(13)
Total Other Comprehensive Income (Loss)	$(3,245)	$1,136	$(2,109)
Nine months ended September 30, 2012			
Unrealized gain (loss) on securities	$7,252	$(2,538)	$4,714
Reclassification adjustment for securities (gains) losses included in net income	(2,831)	991	(1,840)
Non-credit related unrealized gain (loss) on other-than-temporarily impaired debt securities	360	(126)	234
Unrealized gain on derivative financial instruments	157	(55)	102
Amortization (accretion) of net unrecognized pension and postretirement items	988	(346)	642
Total Other Comprehensive Income (Loss)	$5,926	$(2,074)	$3,852
Nine months ended September 30, 2011			
Unrealized gain (loss) on securities	$23,297	$(8,154)	$15,143
Reclassification adjustment for securities (gains) losses included in net income	(1,506)	527	(979)
Non-credit related unrealized gain (loss) on other-than-temporarily impaired debt securities	288	(101)	187
Unrealized gain on derivative financial instruments	157	(55)	102
Amortization (accretion) of net unrecognized pension and postretirement items	(57)	20	(37)
Total Other Comprehensive Income (Loss)	$22,179	$(7,763)	$14,416

The following table presents changes in each component of accumulated other comprehensive income, net of tax, for the three and nine months ended September 30, 2012 and 2011:

	Unrealized Gains on Investment Securities Not Other-Than-Temporarily Impaired (in thousands)	Unrealized Non-Credit Losses on Other-Than-Temporarily Impaired Debt Securities	Unrecognized Pension and Postretirement Plan Items	Unrealized Effective Portions of Losses on Forward-Starting Interest Rate Swaps	Total
Three months ended September 30, 2012					
Balance at June 30, 2012	$19,122	$ (1,048)	$(14,706)	$ (2,886)	$482
Current-period other comprehensive income	10,793	284	214	34	11,325
Balance at September 30, 2012	$29,915	$ (764)	$(14,492)	$ (2,852)	$11,807
Three months ended September 30, 2011					
Balance at June 30, 2011	$37,227	$ (747)	$(4,438)	$ (3,022)	$29,020
Current-period other comprehensive income (loss)	(1,813)	(317)	(13)	34	(2,109)
Balance at September 30, 2011	$35,414	$ (1,064)	$(4,451)	$ (2,988)	$26,911
Nine months ended September 30, 2012					
Balance at December 31, 2011	$27,054	$ (1,011)	$(15,134)	$ (2,954)	$7,955
Current-period other comprehensive income	2,861	247	642	102	3,852
Balance at September 30, 2012	$29,915	$ (764)	$(14,492)	$ (2,852)	$11,807
Nine months ended September 30, 2011					
Balance at December 31, 2010	$22,354	$ (2,355)	$(4,414)	$ (3,090)	$12,495
Current-period other comprehensive income (loss)	13,060	1,291	(37)	102	14,416
Balance at September 30, 2011	$35,414	$ (1,064)	$(4,451)	$ (2,988)	$26,911

NOTE D – Investment Securities

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

Held to Maturity at September 30, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
State and municipal securities	$114	$—	$—	$114
Mortgage-backed securities	340	33	—	373
	$454	$33	$—	$487
Available for Sale at September 30, 2012				
Equity securities	$113,838	$4,569	$(1,089)	$117,318
U.S. Government securities	326	—	—	326
	2,401	39	—	2,440

U.S. Government sponsored agency securities				
State and municipal securities	293,056	14,978	(2)	308,032
Corporate debt securities	110,111	6,376	(10,361)	106,126
Collateralized mortgage obligations	1,014,837	15,733	(380)	1,030,190
Mortgage-backed securities	1,021,882	43,308	—	1,065,190
Auction rate securities	188,378	—	(28,316)	160,062
	$2,744,829	$85,003	$(40,148)	$2,789,684

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Held to Maturity at December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
U.S. Government sponsored agency securities	$5,987	$—	$(14)	$5,973
State and municipal securities	179	—	—	179
Mortgage-backed securities	503	44	—	547
	$6,669	$44	$(14)	$6,699
Available for Sale at December 31, 2011				
Equity securities	$117,486	$2,383	$(2,819)	$117,050
U.S. Government securities	334	—	—	334
U.S. Government sponsored agency securities	3,987	87	(1)	4,073
State and municipal securities	306,186	15,832	—	322,018
Corporate debt securities	132,855	4,979	(14,528)	123,306
Collateralized mortgage obligations	982,851	19,186	(828)	1,001,209
Mortgage-backed securities	848,675	31,837	(415)	880,097
Auction rate securities	240,852	120	(15,761)	225,211
	$2,633,226	$74,424	$(34,352)	$2,673,298

Securities carried at $1.9 billion as of September 30, 2012 and $1.8 billion as of December 31, 2011 were pledged as collateral to secure public and trust deposits and customer repurchase agreements.

Available for sale equity securities include restricted investment securities issued by the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank ($73.2 million at September 30, 2012 and $82.5 million at December 31, 2011), common stocks of financial institutions ($37.4 million at September 30, 2012 and $27.9 million at December 31, 2011) and other equity investments ($6.7 million at September 30, 2012 and December 31, 2011).

As of September 30, 2012, the financial institutions stock portfolio had a cost basis of $34.0 million and a fair value of $37.4 million. On July 31, 2012, the Corporation entered into an agreement with a private investor to immediately purchase $12.7 million of common stock of another financial institution and, contingent upon the Corporation receiving regulatory approval to own more than 5% of that financial institution, to purchase an additional $6.4 million of common stock of that financial institution. The Corporation acquired the common stock as a passive investment. As of September 30, 2012, the Corporation's total investment in the common stock of that financial institution had a cost basis of $13.6 million and a fair value of $14.8 million. This investment accounted for approximately 40% of the Corporation's investments in the common stocks of publicly traded financial institutions. On that date, no other investment within the Corporation's financial institutions stock portfolio exceeded 5% of the portfolio's fair value. In October 2012, the Corporation received the required regulatory approval to purchase, and completed the purchase of, the additional $6.4 million of common stock of that financial institution. As a result of this additional investment, the Corporation owned, in the aggregate, approximately 7.2% of the outstanding shares of that financial institution.

The amortized cost and estimated fair values of debt securities as of September 30, 2012, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held to Maturity		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)			
Due in one year or less	$114	$114	$36,622	$36,707
Due from one year to five years	—	—	60,067	63,879
Due from five years to ten years	—	—	162,239	174,060
Due after ten years	—	—	335,344	302,340
	114	114	594,272	576,986
Collateralized mortgage obligations	—	—	1,014,837	1,030,190
Mortgage-backed securities	340	373	1,021,882	1,065,190
	$454	$487	$2,630,991	$2,672,366

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

	Gross Realized Gains	Gross Realized Losses	Other-than-temporary Impairment Losses	Net Gains (Losses)
	(in thousands)			
Three months ended September 30, 2012				
Equity securities	$—	$—	$(24)	$(24)
Debt securities	85	—	(19)	66
Total	$85	$—	$(43)	$42
Three months ended September 30, 2011				
Equity securities	$146	$—	$(244)	$(98)
Debt securities	—	—	(345)	(345)
Total	$146	$—	$(589)	$(443)
Nine months ended September 30, 2012				
Equity securities	$2,603	$—	$(81)	$2,522
Debt securities	328	—	(19)	309
Total	$2,931	$—	$(100)	$2,831
Nine months ended September 30, 2011				
Equity securities	$194	$—	$(575)	$(381)
Debt securities	3,605	(19)	(1,698)	1,888
Total	$3,799	$(19)	$(2,273)	$1,507

The other-than-temporary impairment charges for equity securities during the three and nine months ended September 30, 2012 and 2011 were for investments in stocks of financial institutions. Other-than-temporary impairment charges related to financial institution stocks were due to the severity and duration of the declines in fair values of certain bank stock holdings, in conjunction with management’s assessment of the near-term prospects of each specific issuer.

The credit related other-than-temporary impairment charges for debt securities during the three and nine months ended September 30, 2012 were for investments in pooled trust preferred securities issued by financial institutions. During the third quarter of 2011, the Corporation recorded $292,000 of other-than-temporary impairment charges for investments in student loan auction rate certificates (ARCs). Other-than-temporary impairment charges related to debt securities were determined based on expected cash flows models.

The following table presents a summary of the cumulative credit related other-than-temporary impairment charges, recognized as components of earnings, for debt securities still held by the Corporation at September 30, 2012 and 2011:

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
	(in thousands)			
Balance of cumulative credit losses on debt securities, beginning of period	$(22,692)	$(28,876)	$(22,781)	$(27,560)
Additions for credit losses recorded which were not previously recognized as components of earnings	(19)	(345)	(19)	(1,698)
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	66	40	155	77
Balance of cumulative credit losses on debt securities, end of period	$(22,645)	$(29,181)	$(22,645)	$(29,181)

The following table presents the gross unrealized losses and estimated fair values of investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2012:

	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(in thousands)					
State and municipal securities	$567	$(2)	$—	$—	$567	$(2)
Corporate debt securities	6,649	(1,082)	38,816	(9,279)	45,465	(10,361)
Collateralized mortgage obligations	137,520	(211)	15,618	(169)	153,138	(380)
Auction rate securities	18,258	(1,274)	141,804	(27,042)	160,062	(28,316)
Total debt securities	162,994	(2,569)	196,238	(36,490)	359,232	(39,059)
Equity securities	2,099	(145)	6,247	(944)	8,346	(1,089)
	$165,093	$(2,714)	$202,485	$(37,434)	$367,578	$(40,148)

For its investments in equity securities, particularly its investments in stocks of financial institutions, management evaluates the near-term prospects of the issuers in relation to the severity and duration of the impairment. As of September 30, 2012, the financial institutions stock portfolio had a cost basis of $34.0 million and a fair value of $37.4 million. Based on that evaluation and the Corporation's ability and intent to hold those investments for a reasonable period of time sufficient for a recovery of fair value, the Corporation does not consider those investments with unrealized holding losses as of September 30, 2012 to be other-than-temporarily impaired.

The unrealized holding losses on ARCs are attributable to liquidity issues resulting from the failure of periodic auctions. Fulton Financial Advisors (FFA) is the investment management and trust division of the Corporation's Fulton Bank, N.A. subsidiary. FFA had previously purchased ARCs for customers as short-term investments with fair values that could be derived based on periodic auctions under normal market conditions. During 2008 and 2009, the Corporation purchased ARCs from customers due to the failure of these periodic auctions, which made these previously short-term investments illiquid. During the three and nine months ended September 30, 2012, ARCs with a par value of $51.5 million and $56.1 million, respectively, were called at par value by their issuers.

As of September 30, 2012, approximately $149 million, or 93%, of the ARCs were rated above investment grade, with approximately $21 million, or 13%, AAA rated and $94 million, or 59%, AA rated. Approximately $11 million, or 7%, of ARCs were either not rated or rated below investment grade by at least one ratings agency. Of this amount, approximately $8 million, or 72%, of the student loans underlying these ARCs have principal payments which are guaranteed by the federal government. In total, approximately $156 million, or 98%, of the student loans underlying the ARCs have principal payments which are guaranteed by the federal government. As of September 30, 2012, all ARCs were current and making scheduled interest payments. Based on management's evaluations, ARCs with a fair value of $160.1 million were not subject to any other-than-temporary impairment charges as of September 30, 2012. The Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell

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

of their fair value to amortized cost, the Corporation does not consider these investments to be other-than-temporarily impaired as of September 30, 2012.

The majority of the Corporation's available for sale corporate debt securities are issued by financial institutions. The following table presents the amortized cost and estimated fair value of corporate debt securities:

	September 30, 2012		December 31, 2011	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
	(in thousands)			
Single-issuer trust preferred securities	$57,726	$50,426	$83,899	$74,365
Subordinated debt	44,262	48,037	40,184	41,296
Pooled trust preferred securities	5,601	5,141	6,236	5,109
Corporate debt securities issued by financial institutions	107,589	103,604	130,319	120,770
Other corporate debt securities	2,522	2,522	2,536	2,536
Available for sale corporate debt securities	$110,111	$106,126	$132,855	$123,306

The Corporation’s investments in single-issuer trust preferred securities had an unrealized loss of $7.3 million at September 30, 2012. The Corporation did not record any other-than-temporary impairment charges for single-issuer trust preferred securities during the nine months ended September 30, 2012 or 2011. The Corporation held eight single-issuer trust preferred securities that were rated below investment grade by at least one ratings agency, with an amortized cost of $22.9 million and an estimated fair value of $21.6 million at September 30, 2012. 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 $5.6 million and an estimated fair value of $4.1 million at September 30, 2012 were not rated by any ratings agency.

The Corporation held ten pooled trust preferred securities as of September 30, 2012. Nine of these securities, with an amortized cost of $5.4 million and an estimated fair value of $5.0 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 Corporation determines the fair value of pooled trust preferred securities based on quotes provided by third-party brokers.

The amortized cost of pooled trust preferred securities is the purchase price of the securities, net of cumulative credit related other-than-temporary impairment charges, determined using an expected cash flows model. The most significant input to the expected cash flows model 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 assets 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 41.2% as of September 30, 2012.

Based on management’s evaluations, corporate debt securities with a fair value of $106.1 million were not subject to any other-than-temporary impairment charges as of September 30, 2012. The Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, which may be at maturity.

NOTE E – Loans and Allowance for Credit Losses

Loans, Net of Unearned Income

Loans, net of unearned income are summarized as follows:

	September 30, 2012	December 31, 2011
	(in thousands)	
Real-estate - commercial mortgage	$4,632,509	$4,602,596
Commercial - industrial, financial and agricultural	3,507,846	3,639,368
Real-estate - home equity	1,603,456	1,624,562
Real-estate - residential mortgage	1,213,831	1,097,192
Real-estate - construction	597,358	615,445
Consumer	301,182	318,101
Leasing and other	71,343	63,254
Overdrafts	12,480	15,446
Loans, gross of unearned income	11,940,005	11,975,964
Unearned income	(7,004)	(6,994)
Loans, net of unearned income	$11,933,001	$11,968,970

Allowance for Credit Losses

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

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

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," as presented in the table under the heading, "Loans, Net of Unearned Income," above. Certain portfolio segments are further disaggregated and evaluated collectively for impairment based on “class segments,” which are largely based on the type of collateral underlying each loan. For commercial loans, class segments include loans secured by collateral and unsecured loans. Construction loan class segments include loans secured by commercial real estate and loans secured by residential real estate. Consumer loan class segments are based on collateral types and include direct consumer installment loans and indirect automobile loans.

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

	September 30, 2012	December 31, 2011
	(in thousands)	
Allowance for loan losses	$233,864	$256,471
Reserve for unfunded lending commitments	1,404	1,706
Allowance for credit losses	$235,268	$258,177

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

	Three months ended September 30		Nine months ended September 30	
	2012	2011	2012	2011
	(in thousands)			
Balance at beginning of period	$237,316	$268,633	$258,177	$275,498
Loans charged off	(29,966)	(32,897)	(110,765)	(119,101)
Recoveries of loans previously charged off	4,918	2,081	11,356	7,420
Net loans charged off	(25,048)	(30,816)	(99,409)	(111,681)
Provision for credit losses	23,000	31,000	76,500	105,000
Balance at end of period	$235,268	$268,817	$235,268	$268,817

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The following table presents the activity in the allowance for loan losses by portfolio segment for the three and nine months ended September 30, 2012 and 2011:

	Real Estate - Commercial Mortgage	Commercial - Industrial, Financial and Agricultural	Real Estate - Home Equity	Real Estate - Residential Mortgage	Real Estate - Construction	Consumer	Leasing and other and overdrafts	Unallocated	Total
	(in thousands)								
Three months ended September 30, 2012									
Balance at June 30, 2012	$69,868	$71,931	$14,444	$26,711	$25,559	$1,816	$3,243	$22,164	$235,736
Loans charged off	(7,463)	(10,471)	(1,688)	(670)	(8,364)	(685)	(625)	—	(29,966)
Recoveries of loans previously charged off	1,317	1,693	343	25	1,040	202	298	—	4,918
Net loans charged off	(6,146)	(8,778)	(1,345)	(645)	(7,324)	(483)	(327)	—	(25,048)
Provision for loan losses (1)	8,447	4,721	2,337	2,790	3,893	530	77	381	23,176
Balance at September 30, 2012	$72,169	$67,874	$15,436	$28,856	$22,128	$1,863	$2,993	$22,545	$233,864
Three months ended September 30, 2011									
Balance at June 30, 2011	$73,598	$82,613	$9,560	$31,912	$30,570	$1,755	$1,787	$34,888	$266,683
Loans charged off	(5,730)	(14,840)	(1,158)	(1,514)	(8,535)	(634)	(486)	—	(32,897)
Recoveries of loans previously charged off	249	695	23	36	595	291	192	—	2,081
Net loans charged off	(5,481)	(14,145)	(1,135)	(1,478)	(7,940)	(343)	(294)	—	(30,816)
Provision for loan losses (1)	13,066	11,669	1,418	2,902	10,415	2,990	768	(12,117)	31,111
Balance at September 30, 2011	$81,183	$80,137	$9,843	$33,336	$33,045	$4,402	$2,261	$22,771	$266,978
Nine months ended September 30, 2012									
Balance at December 31,	$85,112	$74,896	$12,841	$22,986	$30,066	$2,083	$2,397	$26,090	$256,471

2011									
Loans charged off	(43,053)	(29,157)	(6,683)	(3,009)	(25,377)	(1,790)	(1,696)	—	(110,765)
Recoveries of loans previously charged off	3,286	3,046	641	169	2,643	833	738	—	11,356
Net loans charged off	(39,767)	(26,111)	(6,042)	(2,840)	(22,734)	(957)	(958)	—	(99,409)
Provision for loan losses (1)	26,824	19,089	8,637	8,710	14,796	737	1,554	(3,545)	76,802
Balance at September 30, 2012	$72,169	$ 67,874	$ 15,436	$ 28,856	$ 22,128	$ 1,863	$ 2,993	$ 22,545	$233,864
Nine months ended September 30, 2011									
Balance at December 31, 2010	$40,831	$ 101,436	$ 6,454	$ 17,425	$ 58,117	$ 4,669	$ 3,840	$ 41,499	$274,271
Loans charged off	(22,851)	(43,582)	(4,276)	(14,217)	(29,897)	(2,606)	(1,672)	—	(119,101)
Recoveries of loans previously charged off	1,975	2,089	26	270	1,237	1,033	790	—	7,420
Net loans charged off	(20,876)	(41,493)	(4,250)	(13,947)	(28,660)	(1,573)	(882)	—	(111,681)
Provision for loan losses	38,345	33,582	3,949	21,962	28,359	4,382	247	(26,438)	104,388
Impact of change in allowance methodology	22,883	(13,388)	3,690	7,896	(24,771)	(3,076)	(944)	7,710	—
Provision for loan losses, including impact of change in allowance methodology (1)	61,228	20,194	7,639	29,858	3,588	1,306	(697)	(18,728)	104,388
Balance at September 30, 2011	$81,183	$ 80,137	$ 9,843	$ 33,336	$ 33,045	$ 4,402	$ 2,261	$ 22,771	$266,978

(1) Provision for loan losses is gross of a $176,000 and $302,000 decrease, respectively, in provision applied to unfunded commitments for the three and nine months ended September 30, 2012. The total provision for credit losses, comprised of allocations for both funded and unfunded loans, was $23.0 million and $76.5 million for the three and nine months ended September 30, 2012, respectively. Provision for loan losses is net of a $111,000 decrease and a$612,000 increase, respectively, in provision applied to unfunded commitments for the three and nine months ended September 30, 2011.The total provision for credit losses, comprised of allocations for both funded and unfunded loans, was $31.0 million and $105.0 million for the three and nine months ended September 30, 2011, respectively.

The following table presents loans, net of unearned income and their related allowance for loan losses, by portfolio segment, as of September 30, 2012 and 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)								
Allowance for loan losses at September 30, 2012									
Measured for impairment under FASB ASC Subtopic 450-20	$46,889	$44,169	$10,120	$8,306	$14,957	$1,858	$2,980	$22,545	$151,824
Evaluated for impairment under FASB ASC Section 310-10-35	25,280	23,705	5,316	20,550	7,171	5	13	N/A	82,040
	$72,169	$67,874	$15,436	$28,856	$22,128	$1,863	$2,993	$22,545	$233,864
Loans, net of unearned income at September 30, 2012									
Measured for impairment under FASB ASC Subtopic 450-20	$4,539,370	$3,430,724	$1,594,553	$1,165,013	$554,185	$301,175	$76,798	N/A	$11,661,818
Evaluated for impairment under FASB ASC Section 310-10-35	93,139	77,122	8,903	48,818	43,173	7	21	N/A	271,183
	$4,632,509	$3,507,846	$1,603,456	$1,213,831	$597,358	$301,182	$76,819	N/A	$11,933,001
Allowance for loan losses at September 30, 2011									
Measured for impairment under FASB ASC Subtopic 450-20	$47,914	$51,510	$9,843	$7,142	$20,480	$1,773	$2,205	$22,771	$163,638
Evaluated for impairment under FASB ASC Section 310-10-35	33,269	28,627	—	26,194	12,565	2,629	56	N/A	103,340
	$81,183	$80,137	$9,843	$33,336	$33,045	$4,402	$2,261	$22,771	$266,978
Loans, net of unearned income at September 30, 2011									
Measured for impairment under FASB ASC Subtopic 450-20	$4,377,383	$3,603,914	$1,630,880	$975,463	$596,581	$322,113	$66,455	N/A	$11,572,789

Evaluated for impairment under FASB ASC Section 310-10-35	113,772	86,250	—	66,000	51,817	4,941	86	N/A	322,866
	$4,491,155	$3,690,164	$1,630,880	$1,041,463	$648,398	$327,054	$66,541	N/A	$11,895,655

(1) The Corporation’s unallocated allowance, which was approximately 10% and 9% as of September 30, 2012 and September 30, 2011, respectively, was, in the opinion of the Corporation's management, reasonable and appropriate given that the estimates used in the allocation process are inherently imprecise.

N/A – Not applicable.

In June 2012, the Corporation sold $44.1 million of non-accrual commercial mortgage, commercial and construction loans to an investor, resulting in a total increase to charge-offs of $21.2 million during the second quarter of 2012. Because the existing allowance for credit losses on the loans sold exceeded the charge-off amount, no additional provision for credit losses was required. Below is a summary of the transaction:

	Real Estate - Commercial mortgage	Commercial - industrial, financial and agricultural	Real Estate - Construction	Total
	(in thousands)			
Unpaid principal balance of loans sold	$38,450	$15,270	$6,280	$60,000
Charge-offs prior to sale	(8,600)	(3,750)	(3,540)	(15,890)
Net recorded investment in loans sold	29,850	11,520	2,740	44,110
Proceeds from sale, net of selling expenses	15,910	5,170	1,850	22,930
Total charge-off upon sale	$(13,940)	$(6,350)	$(890)	$(21,180)
Existing allocation for credit losses on sold loans	$(15,090)	$(7,510)	$(1,520)	$(24,120)

Impaired Loans

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.

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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. As of September 30, 2012 and December 31, 2011, substantially all of the Corporation's individually evaluated impaired loans were measured based on the estimated fair value of each loan's collateral. Collateral could be in the form of real estate in the case of impaired commercial mortgages, construction loans and residential mortgages, or business assets, such as accounts receivable or inventory, in the case of commercial loans. Commercial loans may also be secured by real property.

As of September 30, 2012 and 2011, approximately 78% and 83%, respectively, of impaired loans with principal balances greater than $1.0 million, whose primary collateral is real estate, were measured at estimated fair value using certified third-party appraisals that had been updated within the preceding 12 months.

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. 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.

The following table presents total impaired loans by class segment as of September 30, 2012 and December 31, 2011:

	September 30, 2012			December 31, 2011		
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Unpaid Principal Balance	Recorded Investment	Related Allowance
	(in thousands)					
With no related allowance recorded:						
Real estate - commercial mortgage	$44,225	$33,917	$—	$54,445	$46,768	$—
Commercial - secured	38,023	30,067	—	35,529	28,440	—
Commercial - unsecured	105	105	—	—	—	—
Real estate - home equity	581	581	—	199	199	—
Real estate - residential mortgage	1,980	1,980	—	—	—	—
Construction - commercial residential	39,490	24,560	—	62,822	31,233	—
Construction - commercial	3,518	2,946	—	3,604	3,298	—
	127,922	94,156		156,599	109,938	
With a related allowance recorded:						
Real estate - commercial mortgage	78,258	59,222	25,280	100,529	79,566	36,060
Commercial - secured	60,556	44,445	21,816	61,970	47,652	26,248
Commercial - unsecured	2,725	2,505	1,889	3,139	2,789	2,177
Real estate - home equity	8,322	8,322	5,316	5,294	5,294	3,076
Real estate - residential mortgage	35,554	46,838	20,550	39,918	39,918	16,295
Construction - commercial residential	23,233	12,536	5,368	41,176	25,632	11,287
Construction - commercial	2,302	2,059	1,169	3,221	1,049	506
Construction - other	1,072	1,072	634	1,127	1,127	663
Consumer - direct	7	7	5	368	368	228
Leasing and other and overdrafts	21	21	13	56	56	37

	212,050	177,027	82,040	256,798	203,451	96,577
Total	$339,972	$271,183	$82,040	$413,397	$313,389	$96,577

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As of September 30, 2012 and December 31, 2011, there were $94.2 million and $109.9 million, respectively, of impaired loans that did not have a related allowance for loan loss. The estimated fair values of the collateral for these loans exceeded their carrying amount and, accordingly, no specific valuation allowance was considered to be necessary.

The following table presents average impaired loans by class segment for the three and nine months ended September 30:

	Three months ended September 30, 2012		Three months ended September 30, 2011		Nine months ended September 30, 2012		Nine months ended September 30, 2011	
	Average Recorded Investment	Interest Income Recognized (1)	Average Recorded Investment	Interest Income Recognized (1)	Average Recorded Investment	Interest Income Recognized (1)	Average Recorded Investment	Interest Income Recognized (1)
	(in thousands)							
With no related allowance recorded:								
Real estate - commercial mortgage	$43,197	$ 172	$40,448	$ 78	$43,422	$ 370	$43,915	$ 568
Commercial - secured	25,992	13	34,474	10	25,526	30	31,426	171
Commercial - unsecured	59	—	149	—	33	—	221	3
Real estate - home equity	583	1	—	—	466	1	—	—
Real estate - residential mortgage	1,984	17	—	—	1,115	30	5,303	43
Construction - commercial residential	25,768	60	18,528	1	28,315	128	23,154	185
Construction - commercial	2,666	6	2,902	—	2,943	12	2,911	21
Consumer - direct	—	—	100	—	—	—	50	—
	100,249	269	96,601	89	101,820	571	106,980	991
With a related allowance recorded:								
Real estate - commercial mortgage	59,239	240	73,076	140	67,064	523	79,898	1,129
Commercial - secured	43,420	32	51,851	14	46,743	65	86,061	1,213
Commercial - unsecured	2,555	2	2,231	1	2,735	4	4,132	34
Real estate - home equity	8,045	7	—	—	6,810	11	—	—
Real estate - residential mortgage	45,022	384	66,892	462	42,555	1,144	57,033	1,039
Construction - commercial residential	16,232	37	31,132	1	21,647	94	53,004	449
Construction - commercial	2,373	5	718	—	2,204	11	1,100	17
Construction - other	997	2	1,556	—	1,073	4	1,093	—
Consumer - direct	7	—	2,477	—	98	—	1,260	2
Leasing and other and overdrafts	158	—	89	—	101	—	60	—
	178,048	709	230,022	618	191,030	1,856	283,641	3,883

Total	$278,297	$978	$326,623	$707	$292,850	$2,427	$390,621	$4,874

(1) All impaired loans, excluding accruing troubled debt restructurings, were non-accrual loans. Interest income recognized for the three and nine months ended September 30, 2012 and 2011 represent amounts earned on accruing troubled debt restructurings.

Credit Quality Indicators and Non-performing Assets

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

	Pass		Special Mention		Substandard or Lower		Total	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
	(in thousands)							
Real estate - commercial mortgage	$4,199,788	$4,099,103	$130,340	$160,935	$302,381	$342,558	$4,632,509	$4,602,596
Commercial - secured	2,926,402	2,977,957	154,759	166,588	214,858	249,014	3,296,019	3,393,559
Commercial -unsecured	199,902	230,962	6,275	6,066	5,650	8,781	211,827	245,809
Total commercial - industrial, financial and agricultural	3,126,304	3,208,919	161,034	172,654	220,508	257,795	3,507,846	3,639,368
Construction - commercial residential	164,247	175,706	51,452	50,854	96,958	126,378	312,657	352,938
Construction - commercial	202,979	186,049	3,429	7,022	12,421	16,309	218,829	209,380
Total construction (excluding Construction - other)	367,226	361,755	54,881	57,876	109,379	142,687	531,486	562,318
	$7,693,318	$7,669,777	$346,255	$391,465	$632,268	$743,040	$8,671,841	$8,804,282
% of Total	88.7 %	87.1 %	4.0 %	4.5 %	7.3 %	8.4 %	100.0 %	100.0 %

The following is a description of the Corporation's internal risk ratings assigned to commercial loans, commercial mortgages and certain construction loans:

Pass: These loans do not currently pose any identified risk and can range from the highest to average quality, depending on the degree of potential risk.

Special Mention: These loans constitute an undue and unwarranted credit risk, but not to a point of justifying a classification of substandard. Loans in this category are currently acceptable, but are nevertheless potentially weak.

Substandard or Lower: Substandard loans are inadequately protected by current sound worth and paying capacity of the borrower. There exists a well-defined weakness or weaknesses that jeopardize the normal repayment of the debt.

The Corporation believes that internal risk ratings are the most relevant credit quality indicator for these types of loans. The migration of loans through the various internal risk rating categories is a significant component of the allowance for credit loss methodology, which bases the probability of default on this migration.

The Corporation does not assign internal risk ratings for smaller balance, homogeneous loans, such as home equity, residential mortgage, consumer, leasing, other and certain construction loans. For these loans, the most relevant credit quality indicator is delinquency status. The migration of loans through the delinquency status is a significant component of the allowance for credit loss methodology, which bases the probability of default on this migration.

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

	Performing		Delinquent (1)		Non-performing (2)		Total	
	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011	September 30, 2012	December 31, 2011
	(in thousands)							
Real estate - home equity	$1,577,256	$1,601,722	$13,557	$11,633	$12,643	$11,207	$1,603,456	$1,624,562
Real estate - residential mortgage	1,156,610	1,043,733	32,311	37,123	24,910	16,336	1,213,831	1,097,192
Construction - other	60,571	49,593	4,564	2,341	737	1,193	65,872	53,127
Consumer - direct	146,351	157,157	3,908	4,011	3,691	3,201	153,950	164,369
Consumer - indirect	144,670	151,112	2,310	2,437	252	183	147,232	153,732
Total consumer	291,021	308,269	6,218	6,448	3,943	3,384	301,182	318,101
Leasing and other and overdrafts	75,954	70,550	765	1,049	100	107	76,819	71,706
	$3,161,412	$3,073,867	$57,415	$58,594	$42,333	$32,227	$3,261,160	$3,164,688
% of Total	96.9 %	97.1 %	1.8 %	1.9 %	1.3 %	1.0 %	100.0 %	100.0 %

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

The following table presents the detail of non-performing assets:

	September 30, 2012	December 31, 2011
	(in thousands)	
Non-accrual loans	$185,791	$257,761
Accruing loans greater than 90 days past due	27,035	28,767
Total non-performing loans	212,826	286,528
Other real estate owned (OREO)	29,217	30,803
Total non-performing assets	$242,043	$317,331

The following table presents troubled debt restructurings (TDRs), by class segment:

	September 30, 2012	December 31, 2011
	(in thousands)	
Real-estate - residential mortgage	$36,946	$32,331
Real-estate - commercial mortgage	32,198	22,425
Construction - commercial residential	10,190	7,645
Commercial - secured	4,671	3,449
Real estate - home equity	755	183
Construction - other	335	—
Commercial -unsecured	124	132
Consumer - direct	—	10
Total accruing TDRs	85,219	66,175
Non-accrual TDRs (1)	21,167	32,587

Total TDRs	$106,386	$98,762

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

As of September 30, 2012 and December 31, 2011, there were $1.4 million and $1.7 million, respectively, of commitments to lend additional funds to borrowers whose loans were modified under TDRs.

The following table presents loans modified as TDRs during the three and nine months ended September 30, 2012 and classified as TDRs as of September 30, 2012, by class segment:

	Three months ended September 30, 2012		Nine months ended September 30, 2012	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(dollars in thousands)			
Real estate - residential mortgage	9	$3,350	33	$11,465
Real estate - commercial mortgage	2	1,404	15	18,004
Construction - commercial	1	957	1	957
Construction - commercial residential	2	741	8	11,178
Commercial - secured	7	737	14	3,944
Construction - other	1	335	1	335
Real estate - home equity	1	132	7	692
	23	$7,656	79	$46,575

The following table presents loans modified as TDRs within the previous 12 months, and classified as TDRs as of September 30, 2012, which had a payment default during the three and nine months ended September 30, 2012, by class segment:

	Three months ended September 30, 2012		Nine months ended September 30, 2012	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(dollars in thousands)			
Real estate - commercial mortgage	6	$6,358	7	$7,442
Real estate - residential mortgage	15	2,977	26	6,763
Commercial - secured	3	1,267	4	1,294
Construction - commercial	1	957	1	957
Construction - commercial residential	3	836	4	2,691
Construction - other	1	335	1	335
Real estate - home equity	3	273	8	653
	32	$13,003	51	$20,135

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

	September 30, 2012							
	31-59 Days Past Due	60-89 Days Past Due	≥ 90 Days Past Due and Accruing	Non-accrual	Total ≥ 90 Days	Total Past Due	Current	Total
	(in thousands)							
Real estate - commercial mortgage	$17,746	$3,338	$3,667	$60,942	$64,609	$85,693	$4,546,816	$4,632,509
Commercial - secured	11,643	2,800	1,542	69,842	71,384	85,827	3,210,192	3,296,019
Commercial - unsecured	1,359	—	10	2,485	2,495	3,854	207,973	211,827
Total commercial - industrial, financial and agricultural	13,002	2,800	1,552	72,327	73,879	89,681	3,418,165	3,507,846
Real estate - home equity	9,894	3,663	5,430	7,213	12,643	26,200	1,577,256	1,603,456
Real estate - residential mortgage	21,792	10,519	13,210	11,700	24,910	57,221	1,156,610	1,213,831
Construction - commercial residential	648	—	95	26,905	27,000	27,648	285,010	312,658
Construction - commercial	468	—	—	5,005	5,005	5,473	213,355	218,828
Construction - other	3,310	1,254	—	737	737	5,301	60,571	65,872
Total real estate - construction	4,426	1,254	95	32,647	32,742	38,422	558,936	597,358
Consumer - direct	2,588	1,320	2,750	941	3,691	7,599	146,351	153,950
Consumer - indirect	1,866	444	252	—	252	2,562	144,670	147,232
Total consumer	4,454	1,764	3,002	941	3,943	10,161	291,021	301,182
Leasing and other and overdrafts	734	31	79	21	100	865	75,954	76,819
	$72,048	$23,369	$27,035	$185,791	$			