FULTON FINANCIAL CORP
Form 10-Q
August 10, 2009

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

(Mark One)

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

For the quarterly period ended June 30, 2009, or

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

For the transition period from __________ to __________

Commission File No. 0-10587

FULTON FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock, $2.50 Par Value 176,038,000 shares outstanding as of July 31, 2009.

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

	June 30 2009 (unaudited)	December 31 2008
ASSETS		
Cash and due from banks	**$ 299,818**	$ 331,164
Interest-bearing deposits with other banks	**25,453**	16,791
Federal funds sold	**437**	4,919
Loans held for sale	**242,439**	95,840
Investment securities:		
Held to maturity (estimated fair value of $9,536 in 2009 and $9,765 in 2008)	**9,435**	9,636
Available for sale	**3,325,968**	2,715,205
Loans, net of unearned income	**11,866,818**	12,042,620
Less: Allowance for loan losses	**(214,170)**	(173,946)
Net Loans	**11,652,648**	11,868,674
Premises and equipment	**205,074**	202,657
Accrued interest receivable	**58,077**	58,566
Goodwill	**534,720**	534,385
Intangible assets	**20,552**	23,448
Other assets	**501,231**	323,821
Total Assets	**$ 16,875,852**	$ 16,185,106
LIABILITIES		
Deposits:		
Noninterest-bearing	**$ 1,942,845**	$ 1,653,440
Interest-bearing	**9,773,452**	8,898,476
Total Deposits	**11,716,297**	10,551,916
Short-term borrowings:		
Federal funds purchased	**781,357**	1,147,673
Other short-term borrowings	**535,936**	615,097
Total Short-Term Borrowings	**1,317,293**	1,762,770
Accrued interest payable	**61,471**	53,678
Other liabilities	**156,896**	169,298

Federal Home Loan Bank advances and long-term debt	**1,750,967**	1,787,797
Total Liabilities	**15,002,924**	14,325,459
SHAREHOLDERS EQUITY		
Preferred stock, $1,000 par value, 376,500 shares authorized and outstanding	**369,610**	368,944
Common stock, $2.50 par value, 600 million shares authorized, 192.6 million shares issued in 2009 and 192.4 million shares issued in 2008	**481,419**	480,978
Additional paid-in capital	**1,258,627**	1,260,947
Retained earnings	**44,937**	31,075
Accumulated other comprehensive loss	**(24,687)**	(17,907)
Treasury stock, 16.9 million shares in 2009 and 17.3 million shares in 2008, at cost	**(256,978)**	(264,390)
Total Shareholders Equity	**1,872,928**	1,859,647
Total Liabilities and Shareholders Equity	**$ 16,875,852**	$ 16,185,106

See Notes to Consolidated Financial Statements

FULTON FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(in thousands, except per-share data)

	Three Months Ended June 30		**Six Months Ended June 30**	
	2009	2008	**2009**	2008
INTEREST INCOME				
Loans, including fees	**$ 162,276**	$ 179,141	**$ 324,590**	$ 370,307
Investment securities:				
Taxable	**29,422**	28,528	**56,272**	58,089
Tax-exempt	**4,176**	4,492	**8,652**	9,027
Dividends	**555**	1,519	**1,172**	3,682
Loans held for sale	**1,628**	1,611	**2,889**	3,188
Other interest income	**40**	101	**89**	319
Total Interest Income	**198,097**	215,392	**393,664**	444,612
INTEREST EXPENSE				
Deposits	**48,007**	51,130	**97,902**	114,615
Short-term borrowings	**921**	12,387	**2,358**	31,216
Long-term debt	**21,225**	19,985	**41,344**	40,992
Total Interest Expense	**70,153**	83,502	**141,604**	186,823
Net Interest Income	**127,944**	131,890	**252,060**	257,789
Provision for loan losses	**50,000**	16,706	**100,000**	27,926
Net Interest Income After Provision for Loan Losses	**77,944**	115,184	**152,060**	229,863
OTHER INCOME				
Service charges on deposit accounts	**15,061**	15,319	**29,955**	29,286
Other service charges and fees	**9,595**	9,131	**17,949**	17,722
Investment management and trust services	**7,876**	8,389	**15,779**	17,148
Gains on sales of mortgage loans	**7,395**	2,670	**15,986**	4,981
Gain on sale of credit card portfolio		13,910		13,910
Other	**5,373**	4,378	**9,626**	7,184
Total other-than-temporary impairment losses	**(8,168)**	(25,015)	**(14,024)**	(28,590)
Less: Portion of loss recognized in other comprehensive income (before taxes)	**4,789**		**7,605**	
Net other-than-temporary impairment losses	**(3,379)**	(25,015)	**(6,419)**	(28,590)
Net gains on sale of investment securities	**3,456**	3,368	**9,415**	8,189
Net investment securities gains (losses)	**77**	(21,647)	**2,996**	(20,401)
Total Other Income	**45,377**	32,150	**92,291**	69,830

OTHER EXPENSES				
Salaries and employee benefits	**55,799**	54,281	**111,103**	109,476
FDIC insurance expense	**12,206**	675	**16,494**	1,537
Net occupancy expense	**10,240**	10,238	**21,263**	20,762
Equipment expense	**3,300**	3,398	**6,379**	6,846
Data processing	**2,907**	3,116	**5,979**	6,362
Marketing	**1,724**	3,519	**4,295**	6,424
Intangible amortization	**1,434**	1,799	**2,897**	3,656
Operating risk loss	**144**	14,385	**6,345**	15,628
Other	**20,052**	18,325	**39,423**	35,705
Total Other Expenses	**107,806**	109,736	**214,178**	206,396
Income Before Income Taxes	**15,515**	37,598	**30,173**	93,297
Income taxes	**2,404**	11,920	**3,977**	26,123
Net Income	**13,111**	25,678	**26,196**	67,174
Preferred stock dividends and discount accretion	**(5,046)**		**(10,077)**	
Net Income Available to Common Shareholders	**$ 8,065**	$ 25,678	**$ 16,119**	$ 67,174
PER COMMON SHARE:				
Net income (basic)	**$ 0.05**	$ 0.15	**$ 0.09**	$ 0.39
Net income (diluted)	**0.05**	0.15	**0.09**	0.39
Cash dividends	**0.03**	0.15	**0.06**	0.30

See Notes to Consolidated Financial Statements

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

	Preferred Stock	Common Stock Shares Outstanding	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
				(in thousands)				
Balance at December 31, 2008	**$ 368,944**	**175,044**	**$ 480,978**	**$ 1,260,947**	**$ 31,075**	**$ (17,907)**	**$ (264,390)**	**$ 1,859,647**
Cumulative effect of FSP FAS 115-2 and FAS 124-2 adoption (net of $3.4 million tax effect)					**6,298**	**(6,298)**		
Comprehensive income (loss):								
Net income					**26,196**			**26,196**
Other comprehensive loss						**(482)**		**(482)**
Total comprehensive income								**25,714**
Stock issued, including related tax benefits		**662**	**441**	**(3,147)**			**7,412**	**4,706**
Stock-based compensation awards				**827**				**827**
Preferred stock discount accretion	**666**				**(666)**			
Preferred stock cash dividends					**(7,424)**			**(7,424)**
Common stock cash dividends $0.06 per share					**(10,542)**			**(10,542)**
	$ 369,610	**175,706**	**$ 481,419**	**$ 1,258,627**	**$ 44,937**	**$ (24,687)**	**$ (256,978)**	**$ 1,872,928**

Balance at June 30, 2009							
Balance at December 31, 2007	$ 173,503	$ 479,559	$ 1,254,369	$ 141,993	$ (21,773)	$ (279,228)	$ 1,574,920
Cumulative effect of EITF 06-4 adoption				(677)			(677)
Impact of pension plan measurement date change (net of $23,000 tax effect)				43			43
Comprehensive income (loss):							
Net income				67,174			67,174
Other comprehensive loss					(2,511)		(2,511)
Total comprehensive income							64,663
Stock issued, including related tax benefits	604	811	566			4,261	5,638
Stock-based compensation awards			1,065				1,065
Common stock cash dividends $0.30 per share				(52,174)			(52,174)
Balance at June 30, 2008	$ 174,107	$ 480,370	$ 1,256,000	$ 156,359	$ (24,284)	$ (274,967)	$ 1,593,478

See Notes to Consolidated Financial Statements

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

	Six Months Ended June 30	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	**$ 26,196**	$ 67,174
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**100,000**	27,926
Depreciation and amortization of premises and equipment	**10,148**	9,855
Net amortization of investment securities premiums	**1,081**	530
Gain on sale of credit card portfolio		(13,910)
Investment securities (gains) losses	**(2,996)**	20,401
Net increase in loans held for sale	**(146,599)**	(12,367)
Amortization of intangible assets	**2,897**	3,656
Stock-based compensation expense	**827**	1,065
Excess tax benefits from stock-based compensation expense		(6)
Decrease in accrued interest receivable	**489**	12,069
Increase in other assets	**(24,941)**	(7,114)
Increase (decrease) in accrued interest payable	**7,793**	(17,199)
Increase (decrease) in other liabilities	**14,987**	(4,196)
Total adjustments	**(36,314)**	20,710
Net cash (used in) provided by operating activities	**(10,118)**	87,884
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available for sale	**179,083**	418,886
Proceeds from maturities of securities held to maturity	**3,101**	5,028
Proceeds from maturities of securities available for sale	**401,328**	400,968
Proceeds from sale of credit card portfolio		100,516
Purchase of securities held to maturity	**(3,056)**	(4,759)
Purchase of securities available for sale	**(1,349,391)**	(570,411)
(Increase) decrease in short-term investments	**(4,180)**	10,919
Net decrease (increase) in loans	**116,619**	(473,589)
Net purchases of premises and equipment	**(12,565)**	(13,493)
Net cash used in investing activities	**(669,061)**	(125,935)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand and savings deposits	**718,931**	99,637
Net increase (decrease) in time deposits	**445,450**	(266,888)
Additions to long-term debt		343,990

Repayments of long-term debt	**(36,830)**	(166,695)
(Decrease) increase in short-term borrowings	**(445,477)**	113,443
Dividends paid	**(38,947)**	(52,084)
Net proceeds from issuance of stock	**4,706**	5,632
Excess tax benefits from stock-based compensation expense		6
Net cash provided by financing activities	**647,833**	77,041
Net (Decrease) Increase in Cash and Due From Banks	**(31,346)**	38,990
Cash and Due From Banks at Beginning of Year	**331,164**	381,283
Cash and Due From Banks at End of Year	**$ 299,818**	$ 420,273
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for:		
Interest	**$ 133,811**	$ 204,022
Income taxes	**9,014**	42,737

See Notes to Consolidated Financial Statements

FULTON FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
NOTE A Basis of Presentation

The accompanying unaudited consolidated financial statements of Fulton Financial Corporation (the Corporation) have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities as of the date of the financial statements as well as revenues and expenses during the period. Actual results could differ from those estimates. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six-month periods ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

NOTE B Net Income Per Common Share and Comprehensive Income (Loss)

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

For diluted net income per common share, net income available to common shareholders is divided by the weighted average number of common shares outstanding plus the incremental number of shares added as a result of converting dilutive securities, calculated using the treasury stock method. The Corporation s dilutive securities consist of outstanding stock options, restricted stock and common stock warrants.

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

	Three months ended June 30		**Six months ended June 30**	
	2009	2008	**2009**	2008
	(in thousands)			
Net income	**$ 13,111**	$ 25,678	**$ 26,196**	$ 67,174
Preferred stock dividends and discount accretion	**(5,046)**		**(10,077)**	
Net income available to common shareholders	**$ 8,065**	$ 25,678	**$ 16,119**	$ 67,174
Weighted average shares outstanding (basic)	**175,554**	173,959	**175,435**	173,791
Effect of dilutive securities	**170**	569	**202**	569
Weighted average shares outstanding (diluted)	**175,724**	174,528	**175,637**	174,360
Stock options and common stock warrants excluded from the diluted net income per share computation as their effect would have been anti-dilutive	**11,957**	5,017	**11,887**	5,017

The following table presents the components of other comprehensive income (loss):

	Six months ended June 30	
	2009	2008
	(in thousands)	
Unrealized gain (loss) on securities (net of $2.1 million and $10.2 million tax effect in 2009 and 2008, respectively)	**$ 3,929**	$ (18,931)
Non-credit related unrealized loss on other-than-temporarily impaired debt securities (net of $2.7 million tax effect) (1)	**(4,944)**	
Unrealized gain on derivative financial instruments (net of $36,000 tax effect in 2009 and 2008) (2)	**68**	68
Unrecognized postretirement gains arising in 2009 due to plan amendment (net of $1.2 million tax effect)	**2,125**	
Amortization of unrecognized pension and postretirement costs (net of $155,000 tax effect)	**288**	
Reclassification adjustment for securities (gains) losses included in net income (net of $1.0 million tax expense in 2009 and $8.8 million tax benefit in 2008)	**(1,948)**	16,352
Other comprehensive income (loss)	**$ (482)**	$ (2,511)

(1) See Note C, Investment Securities for additional details related to the other-than-temporary impairment of debt securities.

(2) Amounts represent the amortization of the effective portions of losses on forward-starting interest rate swaps, designated as cash flow hedges and entered into in prior years in connection with the issuance of fixed-rate debt. The total amount recorded as a reduction to accumulated other comprehensive income upon settlement of these

derivatives is being amortized to interest expense over the life of the related securities using the effective interest method. The amount of net losses in accumulated other comprehensive income that will be reclassified into earnings during the next twelve months is expected to be approximately $135,000.

NOTE C INVESTMENT SECURITIES

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
Held to Maturity at June 30, 2009				
U.S. Government sponsored agency securities	$ 6,843	$ 11	$	$ 6,854
State and municipal securities	825	2		827
Mortgage-backed securities	1,767	89	(1)	1,855
	$ 9,435	$ 102	$ (1)	$ 9,536
Available for Sale at June 30, 2009				
Equity securities	$ 132,812	$ 1,394	$ (6,491)	$ 127,715
U.S. Government securities	14,988	4		14,992
U.S. Government sponsored agency securities	127,639	1,437	(705)	128,371
State and municipal securities	460,380	6,947	(894)	466,433
Corporate debt securities	159,868	55	(55,630)	104,293
Collateralized mortgage obligations	881,649	17,016	(2,716)	895,949
Mortgage-backed securities	1,267,979	31,818	(1,157)	1,298,640
Auction rate securities (1)	298,809	2,526	(11,760)	289,575
	$ 3,344,124	$ 61,197	$ (79,353)	$ 3,325,968

(1) See Note H, Commitments and

Contingencies for additional details related to auction rate securities.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
		(in thousands)		
Held to Maturity at December 31, 2008				
U.S. Government sponsored agency securities	$ 6,782	$ 60	$	$ 6,842
State and municipal securities	825	5		830
Corporate debt securities	25			25
Mortgage-backed securities	2,004	66	(2)	2,068
	$ 9,636	$ 131	$ (2)	$ 9,765
Available for Sale at December 31, 2008				
Equity securities	$ 138,071	$ 2,133	$ (1,503)	$ 138,701
U.S. Government securities	14,545	83		14,628
U.S. Government sponsored agency securities	74,616	2,406	(20)	77,002
State and municipal securities	520,429	5,317	(2,210)	523,536
Corporate debt securities	154,976	1,085	(36,167)	119,894
Collateralized mortgage obligations	489,686	14,713	(206)	504,193
Mortgage-backed securities	1,118,508	24,160	(1,317)	1,141,351
Auction rate securities	208,281		(12,381)	195,900
	$ 2,719,112	$ 49,897	$ (53,804)	$ 2,715,205

The amortized cost and estimated fair value of debt securities as of June 30, 2009, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held to Maturity		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
		(in thousands)		
Due in one year or less	$ 7,165	$ 7,178	$ 109,879	$ 110,439
Due from one year to five years	503	503	266,885	271,330
Due from five years to ten years			106,987	102,949
Due after ten years			577,933	518,946
	7,668	7,681	1,061,684	1,003,664
Collateralized mortgage obligations			881,649	895,949
Mortgage-backed securities	1,767	1,855	1,267,979	1,298,640
	$ 9,435	$ 9,536	$ 3,211,312	$ 3,198,253

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

	Gross Realized Gains	Gross Realized Losses	Other-than-temporary Impairment Losses	Net Gains (Losses)
		(in thousands)		
Three months ended June 30, 2009:				
Equity securities	**$ 479**	**$ (65)**	**$ (728)**	**$ (314)**
Debt securities	**3,042**		**(2,651)**	**391**
Total	**$ 3,521**	**$ (65)**	**$ (3,379)**	**$ 77**
Three months ended June 30, 2008:				
Equity securities	$ 860	$	$ (25,015)	$ (24,155)
Debt securities	2,890	(382)		2,508
Total	$ 3,750	$ (382)	$ (25,015)	$ (21,647)
Six months ended June 30, 2009:				
Equity securities	**$ 591**	**$ (281)**	**$ (1,790)**	**$ (1,480)**
Debt securities	**9,213**	**(108)**	**(4,629)**	**4,476**
Total	**$ 9,804**	**$ (389)**	**$ (6,419)**	**$ 2,996**
Six months ended June 30, 2008:				
Equity securities	$ 5,616	$ (8)	$ (28,590)	$ (22,982)
Debt securities	3,086	(505)		2,581
Total	$ 8,702	$ (513)	$ (28,590)	$ (20,401)

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

	Three Months Ended June 30		**Six Months Ended June 30**	
	2009	2008	**2009**	2008
		(in thousands)		
Financial institution stocks	**$ 728**	$ 24,655	**$ 1,684**	$ 28,230
Mutual funds		360	**106**	360
Total equity securities charges	**728**	25,015	**1,790**	28,590

Debt securities	Pooled trust preferred securities		**2,651**				**4,629**	
Total other-than-temporary impairment charges		**$**	**3,379**	$	25,015	**$**	**6,419**	$ 28,590

The $728,000 and $1.7 million of other-than-temporary impairment charges related to financial institutions stocks during the three and six months ended June 30, 2009 were due to the increasing severity and duration of the decline in fair values of certain bank stock holdings, in conjunction with management s assessment of the near-term prospects of each specific issuer. As of June 30, 2009, after other-than-temporary impairment charges, the financial institution stock portfolio had a cost basis of $37.8 million and a fair value of $32.7 million.

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

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

During the three and six months ended June 30, 2009, the $2.7 million and $4.6 million of other-than-temporary impairment losses for pooled trust preferred securities recognized in earnings were determined through the use of an expected cash flow model, consistent with the guidance in Emerging Issues Task Force 99-20-1, Amendments to the Impairment Guidance in EITF Issue No. 99-20 . The most significant input to the expected cash flows model was the assumed default rate for each pooled trust preferred security. The Corporation evaluates the financial metrics, such as capital ratios and non-performing asset ratios, of each individual financial institution issuer that comprises the pooled trust preferred securities to estimate the expected default rates for each security. The weighted average default rate for pooled trust preferred securities held by the Corporation at June 30, 2009 was approximately 20%.

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

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Balance of cumulative credit losses on pooled trust preferred securities, beginning of period (1)	$ (8,120)	$ (6,142)
Additions for credit losses recorded which were not previously recognized as components of earnings	(2,651)	(4,629)
Ending balance of cumulative credit losses on pooled trust preferred securities, end of period	$ (10,771)	$ (10,771)

(1) Cumulative credit losses of $6.1 million at January 1, 2009 represent the other-than-temporary impairment charges recorded during the year ended December 31, 2008

for pooled trust preferred securities, net of the Corporation s cumulative effect adjustment upon adoption of FSP FAS 115-2.

The following table presents the gross unrealized losses and estimated fair values of investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2009:

	Less Than 12 months		12 Months or Longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(in thousands)					
U.S. Government sponsored agency securities	$ 84,858	$ (696)	$ 494	$ (9)	$ 85,352	$ (705)
State and municipal securities	69,745	(848)	1,731	(46)	71,476	(894)
Corporate debt securities	27,992	(21,159)	71,606	(34,471)	99,598	(55,630)
Collateralized mortgage obligations	295,566	(2,473)	4,042	(243)	299,608	(2,716)
Mortgage-backed securities	117,838	(1,157)	92	(1)	117,930	(1,158)
Auction rate securities	149,262	(6,425)	76,148	(5,335)	225,410	(11,760)
Total debt securities	745,261	(32,758)	154,113	(40,105)	899,374	(72,863)
Equity securities	19,166	(6,393)	295	(98)	19,461	(6,491)
	$ 764,427	$ (39,151)	$ 154,408	$ (40,203)	$ 918,835	$ (79,354)

For its investments in equity securities, most notably its investments in stocks of financial institutions, management evaluates the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on that evaluation and the Corporation s ability and intent to hold those investments for a reasonable period of time sufficient for a recovery of fair value, the Corporation does not consider those investments with unrealized holding losses as of June 30, 2009 to be other-than-temporarily impaired.

In relation to the Corporation s investments in auction rate securities, the current unrealized holding losses on these securities are attributable to liquidity issues as a result of the failure of periodic auctions. As of June 30, 2009, approximately 65% of the auction rate securities held by the Corporation are AAA rated, with 96% of them above investment grade. In addition, approximately 89% of the student loans underlying the auction rate securities have principal payments which are guaranteed by the Federal government. Finally, all auction rate securities currently held by the Corporation are current and making scheduled interest payments. Because the Corporation does not have the intention to sell and does not believe it will be required to sell any of these securities prior to a recovery of their fair value to amortized cost, the Corporation does not consider those investments to be other-than-temporarily impaired as of June 30, 2009. For additional information related to the Corporation s investment in auction rate securities, see Note H, Commitments and Contingencies .

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

	June 30, 2009		December 31, 2008	
	Amortized cost	**Estimated fair value**	Amortized cost	Estimated fair value
	(in thousands)			

Single-issuer trust preferred securities (1)	**$ 97,918**	**$ 66,214**	$ 97,887	$ 69,819
Subordinated debt	**34,835**	**30,428**	34,788	31,745
Pooled trust preferred securities	**24,379**	**4,915**	19,351	15,381
Corporate debt securities issued by financial institutions	**157,132**	**101,557**	152,026	116,945
Other corporate debt securities	**2,736**	**2,736**	2,950	2,949
Available for sale corporate debt securities	**$ 159,868**	**$ 104,293**	$ 154,976	$ 119,894

(1) Single-issuer trust preferred securities with estimated fair values totaling $7.0 million as of June 30, 2009 are classified as Level 3 assets under Statement 157. See Note J, Fair Value Measurements for additional details.

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As required by FSP FAS 115-2, the Corporation has evaluated all corporate debt securities issued by financial institutions to determine if any unrealized holding losses represent credit losses, which would require an other-than-temporary impairment charge through earnings. In addition, the Corporation does not have the intention to sell and does not believe it will be required to sell any impaired corporate debt securities issued by financial institutions prior to a recovery to amortized cost. Therefore, the Corporation does not consider those investments with unrealized losses at June 30, 2009 to be other-than-temporarily impaired.

NOTE D Goodwill

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

NOTE E Stock-Based Compensation

As required by Statement of Financial Accounting Standards No. 123R, Share-Based Payment , the fair value of equity awards to employees is recognized as compensation expense over the period during which employees are required to provide service in exchange for such awards. The Corporation s equity awards consist of stock options and restricted stock granted under its Stock Option and Compensation Plans (Option Plans) and shares purchased by employees under its Employee Stock Purchase Plan.

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

	Three months ended June 30		**Six months ended June 30**	
	2009	2008	**2009**	2008
	(in thousands)			
Stock-based compensation expense	**$ 447**	$ 478	**$ 827**	$ 1,065
Tax benefit	**(37)**	(52)	**(75)**	(126)
Stock-based compensation expense, net of tax	**$ 410**	$ 426	**$ 752**	$ 939

Under the Option Plans, stock options and restricted stock are granted to key employees. Stock option exercise prices are equal to the fair value of the Corporation s stock on the date of grant, with terms of up to ten years. Stock options and restricted stock are typically granted annually on July 1st and become fully vested after a three-year vesting period. Certain events as defined in the Option Plans result in the acceleration of the vesting of both stock options and restricted stock. As of June 30, 2009, there were 13.6 million shares reserved for future grants through 2013. On July 1, 2009, the Corporation granted approximately 485,000 stock options and 214,000 shares of restricted stock under its Option Plans.

In connection with the Corporation s participation in the U.S. Treasury Department s Capital Purchase Program (CPP) component of the Troubled Asset Relief Program, the 2009 restricted stock grants to certain key employees are subject to the requirements and limitations contained in Emergency Economic Stabilization Act of 2008, as amended, and related regulations. Among other things, the 2009 restricted stock grants to these key employees provide that they may not fully vest until the Corporation s participation in CPP ends.

NOTE F Employee Benefit Plans

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

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

During 2009, the Corporation amended the Postretirement Plan to no longer pay benefits for early retirees from their retirement date to age 65. As a result of this amendment, the Corporation recorded a $3.3 million ($2.1 million, net of tax) reduction to unrecognized prior service costs through an increase to other comprehensive income. The total amount of unrecognized prior service cost that is expected to be accreted as a reduction to periodic benefit cost for the remainder of 2009 is $291,000.

As required by Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Postretirement Plans , the Corporation recognizes the funded status of its Pension Plan and Postretirement Plan on the consolidated balance sheets and recognizes the changes in that funded status through other comprehensive income.

The net periodic benefit cost for the Corporation s Pension Plan and Postretirement Plan, as determined by consulting actuaries, consisted of the following components for the three and six-month periods ended June 30:

	Pension Plan			
	Three months ended June 30		Six months ended June 30	
	2009	2008	**2009**	2008
	(in thousands)			
Service cost (1)	**$ 37**	$ 37	**$ 74**	$ 74
Interest cost	**818**	816	**1,637**	1,632
Expected return on plan assets	**(722)**	(918)	**(1,444)**	(1,836)
Net amortization and deferral	**262**		**524**	
Net periodic benefit cost (income)	**$ 395**	$ (65)	**$ 791**	$ (130)

(1) The Pension Plan service cost recorded for the three and six months ended June 30, 2009 and 2008 was related to administrative costs associated with the plan and not due to

the accrual of additional participant benefits.

	Postretirement Plan			
	Three months ended June 30		**Six months ended June 30**	
	2009	2008	**2009**	2008
	(in thousands)			
Service cost	**$ 75**	$ 131	**$ 181**	$ 258
Interest cost	**151**	187	**317**	354
Expected return on plan assets	**(1)**	(2)	**(2)**	(3)
Net accretion and deferral	**(81)**		**(81)**	
Net periodic benefit cost	**$ 144**	$ 316	**$ 415**	$ 609

NOTE G Derivative Financial Instruments

Effective January 1, 2009, the Corporation adopted Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities (Statement 161). As required by Statement 161, the Corporation has included disclosures for its derivative instruments and for its hedging activities.

In connection with its mortgage banking activities, the Corporation enters into commitments to originate fixed-rate residential mortgage loans for customers, also referred to as interest rate locks. In addition, the Corporation enters into forward commitments for the future sale or purchase of mortgage-backed securities to or from third-party investors to hedge the effect of changes in interest rates on the value of the interest rate locks and mortgage loans held for sale. Forward sales commitments may also be in the form of commitments to sell individual mortgage loans at a fixed price at a future date. Both the interest rate locks and the forward commitments are accounted for as derivatives and carried at fair value, determined as the amount that would be necessary to settle each derivative financial instrument at the end of the period. Gross derivative assets and liabilities are recorded within other assets and other liabilities on the consolidated balance sheets, with changes in fair value during the period recorded within gains on sales of mortgage loans on the consolidated statements of income.

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

	June 30, 2009		December 31, 2008	
	Notional Amount	**Fair Value**	Notional Amount	Fair Value
	(in thousands)			
Interest Rate Locks with Customers:				
Positive fair values	**$ 112,938**	**$ 802**	$ 103,824	$ 506
Negative fair values	**141,978**	**(1,088)**	37,321	(81)
Net Interest Rate Locks with Customers		**(286)**		425
Forward Commitments:				
Positive fair values	**1,046,613**	**2,595**	219,142	954
Negative fair values	**618,500**	**(1,577)**	271,307	(2,399)
Net Forward Commitments		**1,018**		(1,445)
Interest rate swaps (1)			10,000	18
		$ 732		$ (1,002)

(1) Interest rate swaps recorded as a component of other liabilities on the consolidated balance sheets. All swaps existing at December 31,

2008 were called in the first quarter of 2009.

The following table presents a summary of the fair value gains and losses recorded by the Corporation during the three and six months ended June 30, 2009:

	Fair Value Gains/(Losses)		Statement of Income Classification
	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009	
	(in thousands)		
Interest rate locks with customers	$ (4,674)	$ (711)	Gains on sale of mortgage loans
Forward commitments	4,591	2,463	Gains on sale of mortgage loans
Interest rate swaps		(18)	Other expense
	$ (83)	$ 1,734	

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NOTE H Commitments and Contingencies

Commitments

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

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

	June 30, 2009	December 31, 2008
	(in thousands)	
Commitments to extend credit	**$4,352,444**	$3,360,499
Standby letters of credit	**728,210**	789,804
Commercial letters of credit	**30,580**	37,620

As of June 30, 2009 and December 31, 2008, the reserve for unfunded lending commitments, included in other liabilities on the consolidated balance sheets, was $6.8 million and $6.2 million, respectively.

Auction Rate Securities

The Corporation s investment management and trust subsidiary, Fulton Financial Advisors, N.A. (FFA), held auction rate securities, also known as auction rate certificates (ARCs), for some of its customers accounts. Beginning in the second quarter of 2008, the Corporation agreed to purchase illiquid student-loan backed ARCs from customers of FFA, upon notification that they had liquidity needs or otherwise desired to liquidate their holdings, resulting in a pre-tax charge of $13.2 million, recorded as a component of operating risk loss on the consolidated statements of income during the three months ended June 30, 2008. The guarantee was recorded as a liability in accordance with FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34 and carried at estimated fair value with a corresponding pre-tax charge to earnings both upon the initial establishment of the guarantee and upon changes in its estimated fair value. The estimated fair value of the guarantee was determined based on the difference between the fair value of the underlying ARCs, assuming that all ARCs held in customer accounts would be purchased, and their estimated purchase price.

FFA had generally purchased ARCs from customers at par value with an interest adjustment which was designed to position customers as if they had owned 90-day U.S. Treasury bills instead of ARCs. As FFA s approach to purchasing customers ARCs evolved, however, interest adjustments were not made on certain accounts due to various circumstances and restrictions. To provide similar treatment to all of FFA s customers holding ARCs and in consideration of certain other market developments, in the first quarter of 2009 the Corporation decided that all future ARC purchases from customer accounts would be at par value, without an interest adjustment. Furthermore, the Corporation reimbursed customers for the amount of the interest differential on ARCs previously sold to the Corporation. As a result, during the first quarter of 2009, the Corporation recorded a pre-tax charge of $5.7 million related to the interest adjustment.

In April 2009, FFA notified its remaining customers holding ARCs that it would purchase the ARCs at par value if notice of their acceptance of this offer were received by May 15, 2009. As a result, as of June

30, 2009, there are no longer any ARCs still held by FFA s customers which the Corporation will be required to purchase.
The following table presents the change in the ARC investment balances held by customers and the related financial guarantee liability for the three and six months ended June 30, 2009:

	Three Months Ended June 30, 2009		Six Months Ended June 30, 2009	
	ARCs Held by Customers, at Par Value	Financial Guarantee Liability	ARCs Held by Customers, at Par Value	Financial Guarantee Liability
	(in thousands)			
Balance, beginning of period	$ 93,825	$ (13,934)	$ 105,165	$ (8,653)
Provision for financial guarantee		(79)		(6,237)
Purchases of ARCs	(93,675)	14,013	(104,415)	14,890
Redemptions of ARCs	(150)		(750)	
Balance, end of period	$	$	$	$

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

Residential Lending Contingencies

Residential mortgages are originated and sold by the Corporation through Fulton Mortgage Company, which is a division of each of the Corporation s subsidiary banks. The loans originated and sold through these channels are predominately prime loans that conform to published standards of government sponsored agencies. Prior to 2008, the Corporation s Resource Bank affiliate operated a significant national wholesale mortgage lending operation which originated and sold significant volumes of non-prime loans from the time the Corporation acquired Resource Bank in 2004 through 2007.
The following table presents a summary of the approximate principal balances and related reserves/write-downs recognized on the Corporation s consolidated balance sheet, by general category:

	June 30, 2009		December 31, 2008	
	Principal	**Reserves/ Write-downs**	Principal	Reserves/ Write-downs
	(in thousands)			
Outstanding repurchase requests (1) (2)	**$ 5,590**	**$ (3,580)**	$ 6,290	$ (2,900)
No repurchase request received sold loans with identified potential misrepresentations of borrower information (1) (2)	**3,650**	**(1,470)**	7,990	(3,280)
Repurchased loans (3)	**7,450**	**(1,560)**	10,000	(1,690)
Foreclosed real estate (OREO) (4)	**18,180**		15,920	
Total reserves/write-downs		**$ (6,610)**		$ (7,870)

(1)

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

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

(3) Principal balances, net of write-downs, are included as a component of loans, net of unearned income on the consolidated balance sheets as of June 30, 2009 and December 31, 2008.

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

The following presents the change in the reserve/write-down balances for the three and six months ended June 30, 2009:

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
	(in thousands)	
Total reserves/write-downs, beginning of period	$ 7,330	$ 7,870
Credits to expense	(400)	(600)
Charge-offs	(320)	(660)
Total reserves/write-downs, end of period	$ 6,610	$ 6,610

During the three and six months ended June 30, 2008, the Corporation recorded charges of $700,000 and $1.5 million, respectively, related to the potential and actual repurchase of previously sold residential mortgages.
Management believes that the reserves recorded as of June 30, 2009 are adequate for the known potential repurchases. However, continued declines in collateral values or the identification of additional loans to be repurchased could necessitate additional reserves in the future.

NOTE I FAIR VALUE OPTION

Statement of Financial Accounting Standard No. 159, The Fair Value Option for Financial Assets and Financial Liabilities an Amendment of FASB Statement No. 115 (Statement 159) became effective for the Corporation on January 1, 2008. Statement 159 permits entities to measure many financial instruments and certain other items at fair value and requires certain disclosures for amounts for which the fair value option is applied.
The Corporation elected to record mortgage loans held for sale which were originated after September 30, 2008 at fair value under Statement 159. Prior to October 1, 2008, mortgage loans held for sale were reported at the lower of aggregate cost or market. The Corporation elected to adopt Statement 159 for mortgage loans held for sale to more accurately reflect the financial performance of its entire mortgage banking activities in its consolidated financial statements. Derivative financial instruments related to these activities are also recorded at fair value under Statement 133, as noted within Note G, Derivative Financial Instruments . The Corporation determines fair value for its mortgage loans held for sale based on the price that secondary market investors would pay for loans with similar characteristics, including interest rate and term, as of the date fair value is measured. The Corporation classifies interest income earned on mortgage loans held for sale within interest income on the consolidated statements of income, which is separate from the fair value adjustments on loans held for sale, which are recorded as components of gains on sales of mortgage loans.

The following table presents a summary of the Corporation s fair value elections under Statement 159 and their impact on the Corporation s consolidated balance sheets:

	Cost Asset (Liability)	Fair Value Asset (Liability)	Balance Sheet Classification
	(in thousands)		
June 30, 2009:			
Mortgage loans held for sale (1) (2)	**$ 229,870**	**$ 231,806**	Loans held for sale
December 31, 2008:			
Mortgage loans held for sale (1)	$ 64,787	$ 66,567	Loans held for sale
Hedged certificates of deposit (3)	(7,458)	(7,517)	Interest-bearing deposits
	$ 57,329	$ 59,050	

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

(2) For the three and six months ended June 30, 2009, the Corporation recorded charges of $613,000 and income of $156,000, respectively, included within gains on sales of mortgage loans on the consolidated statements of income, representing the changes in fair values of mortgage loans held for sale.

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

NOTE J FAIR VALUE MEASUREMENTS

Statement 157 Fair Value Measurements

Statement of Financial Accounting Standards No. 157, Fair Value Measurements (Statement 157) establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into the following three categories (from highest to lowest priority):

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

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

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

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

In April 2009, the FASB issued Staff Position No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4). This staff position provides additional guidance for estimating fair value in accordance with Statement 157 when the volume and level of activity for an asset or liability have declined significantly and includes guidance on identifying circumstances that indicate a transaction is not orderly. This staff position is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Corporation elected to early adopt FSP FAS 157-4, effective March 31, 2009. The Corporation s available for sale debt securities include ARCs and pooled trust preferred securities and certain single-issuer trust preferred securities issued by financial institutions which, prior to the adoption of this staff position, were valued through means other than quoted market prices due the Corporation s conclusion that the market for the securities was not active. Therefore, the adoption of this staff position did not impact the Corporation s consolidated financial statements.

Items Measured at Fair Value on a Recurring Basis

The Corporation s assets and liabilities measured at fair value on a recurring basis and reported on the consolidated balance sheet as of June 30, 2009 were as follows:

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Mortgage loans held for sale	$	$ 231,806	$	$ 231,806
Available for sale investment securities	35,165	2,903,722	301,496	3,240,383
Other financial assets	9,296	3,397		12,693
Total assets	$ 44,461	$ 3,138,925	$ 301,496	$ 3,484,882
Other financial liabilities	$ 9,296	$ 2,665	$	$ 11,961

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

Mortgage loans held for sale This category consists of mortgage loans held for sale that the Corporation has elected to measure at fair value under Statement 159. Fair value as of June 30, 2009 was measured as the price that secondary market investors were offering for loans with similar characteristics. See Note I, Fair Value Option for details related to the Corporation s election to measure assets and liabilities at fair value under Statement 159.

Available for sale investment securities Included within this asset category are both equity and debt securities. Equity securities consisting of stocks of financial institutions and mutual funds are listed as Level 1 assets, measured at fair value based on quoted prices for identical securities in active markets. Debt securities, excluding ARCs, pooled trust preferred securities and certain single-issuer trust preferred securities, are classified as Level 2 assets and consist of: U.S. government and U.S. government sponsored agency securities, state and municipal securities, corporate debt securities, collateralized mortgage obligations and mortgage-backed securities. Fair values are determined by a third-party pricing service using both quoted prices for similar assets, when available, and model-based valuation techniques that derive fair value based on market-corroborated data, such as instruments with similar prepayment speeds and default interest rates. See Note C, Investment Securities for additional details related to the Corporation s available for sale investment securities.

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

Pooled trust preferred securities and certain single-issuer trust preferred securities are also classified as Level 3 assets. The fair values of pooled trust preferred securities and $7.0 million of single-issuer trust preferred securities were determined based on quotes provided by third-party brokers who determined fair values based predominantly on internal valuation models and were not indicative prices or binding offers. The Corporation classified $59.2 million of other single-issuer trust preferred securities as Level 2 assets above.

Equity securities totaling $85.6 million, issued by the Federal Home Loan Bank and Federal Reserve Bank, have been excluded from the above table.

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

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

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

The following tables present the changes in the Corporation s assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) for the three and six months ended June 30, 2009:

Three Months Ended June 30, 2009

	Available for Sale Investment Securities			Other Financial Liabilities
	Pooled Trust Preferred Securities	Single-issuer Trust Preferred Securities	ARC Investments	ARC Financial Guarantee
	(in thousands)			
Balance, March 31, 2009	$ 10,692	$ 6,294	$ 203,578	$ (13,934)
Purchases (1)			79,741	14,013
Realized adjustment to fair value (2)	(2,651)			(79)
Unrealized adjustment to fair value (3)	(3,129)	712	5,812	
Redemptions			(628)	
Discount accretion (4)	3		1,072	
Balance, June 30, 2009	$ 4,915	$ 7,006	$ 289,575	$

Six Months Ended June 30, 2009

	Available for Sale Investment Securities			Other Financial Liabilities
	Pooled Trust Preferred Securities	Single-issuer Trust Preferred Securities	ARC Investments	ARC Financial Guarantee
	(in thousands)			
Balance, December 31, 2008	$ 15,381	$ 7,544	$ 195,900	$ (8,653)
Purchases (1)			89,383	14,890
Realized adjustment to fair value (2)	(4,629)			(6,237)
Unrealized adjustment to fair value (3)	(5,840)	(540)	3,147	
Redemptions			(717)	
Discount accretion (4)	3	2	1,862	
Balance, June 30, 2009	$ 4,915	$ 7,006	$ 289,575	$

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

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

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

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

investment securities on the Corporation s consolidated balance sheet.

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

Items Measured at Fair Value on a Nonrecurring Basis

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

The Corporation s assets measured at fair value on a nonrecurring basis and reported on the Corporation s consolidated balance sheet as of June 30, 2009 were as follows:

	Level 1	Level 2	Level 3	Total
		(in thousands)		
Loans held for sale	$	$ 10,633	$	$ 10,