FULTON FINANCIAL CORP
Form 10-K
February 28, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012,

or

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

Commission File Number: 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)

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

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

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

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

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

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

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

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

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

Large accelerated filer	x	Accelerated filer	¨

Non-accelerated filer ¨ Smaller reporting company ¨

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

The aggregate market value of the voting Common Stock held by non-affiliates of the registrant, based on the average bid and asked prices on June 30, 2012, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $2.0 billion. The number of shares of the registrant's Common Stock outstanding on January 31, 2013 was 198,437,000.

Portions of the Definitive Proxy Statement of the Registrant for the Annual Meeting of Shareholders to be held on April 29, 2013 are incorporated by reference in Part III.

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PART I

Item 1. Business

General

Fulton Financial Corporation (the Corporation) was incorporated under the laws of Pennsylvania on February 8, 1982 and became a bank holding company through the acquisition of all of the outstanding stock of Fulton Bank on June 30, 1982. In 2000, the Corporation became a financial holding company as defined in the Gramm-Leach-Bliley Act (GLB Act), which allowed the Corporation to expand its financial services activities under its holding company structure (See "Competition" and "Supervision and Regulation"). The Corporation directly owns 100% of the common stock of six community banks and ten non-bank entities. As of December 31, 2012, the Corporation had approximately 3,570 full-time equivalent employees.

The common stock of Fulton Financial Corporation is listed for quotation on the Global Select Market of The NASDAQ Stock Market under the symbol FULT. The Corporation's internet address is www.fult.com. Electronic copies of the Corporation's 2012 Annual Report on Form 10-K are available free of charge by visiting "Investor Relations" at www.fult.com. Electronic copies of quarterly reports on Form 10-Q and current reports on Form 8-K are also available at this Internet address. These reports are posted as soon as reasonably practicable after they are electronically filed with the Securities and Exchange Commission (SEC).

Bank and Financial Services Subsidiaries

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

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

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

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

Commercial banking services are provided to small and medium sized businesses (generally with sales of less than $100 million) in the subsidiary banks' market areas. The maximum total lending commitment to an individual borrower was $39.0 million as of December 31, 2012, which is below the Corporation's regulatory lending limit. Commercial lending options include commercial, financial, agricultural and real estate loans. Floating, adjustable and fixed rate loans are provided, with floating and adjustable rate loans generally tied to an index such as the Prime Rate or the London Interbank Offered Rate. The Corporation's commercial lending policy encourages relationship banking and provides strict guidelines related to customer creditworthiness and collateral requirements. In addition, equipment leasing, letters of credit, cash management services and traditional deposit products are offered to commercial customers.

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

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

The following table provides certain information for the Corporation's banking subsidiaries as of December 31, 2012:

Subsidiary	Main Office Location	Total Assets	Total Deposits	Branches (1)
		(dollars in millions)		
Fulton Bank, N.A.	Lancaster, PA	$9,194	$6,717	119
Fulton Bank of New Jersey	Mt. Laurel, NJ	3,335	2,746	71
The Columbia Bank	Columbia, MD	1,997	1,541	39
Lafayette Ambassador Bank	Bethlehem, PA	1,406	1,105	23
FNB Bank, N.A.	Danville, PA	360	289	8
Swineford National Bank	Middleburg, PA	299	251	7
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(1) Remote service facilities (mainly stand-alone automated teller machines) are excluded. See additional information in "Item 2. Properties."

Non-Bank Subsidiaries

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

The Corporation owns 100% of the common stock of four non-bank subsidiaries which are not consolidated for financial reporting purposes. The following table provides information for these non-bank subsidiaries, whose sole assets consist of junior subordinated deferrable interest debentures issued by the Corporation, as of December 31, 2012 (dollars in thousands):

Subsidiary	State of Incorporation	Total Assets
Fulton Capital Trust I	Pennsylvania	$154,640
Columbia Bancorp Statutory Trust	Delaware	6,186
Columbia Bancorp Statutory Trust II	Delaware	4,124
Columbia Bancorp Statutory Trust III	Delaware	6,186

Competition

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

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

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

Market Share

Although there are many ways to assess the size and strength of banks, deposit market share continues to be an important industry statistic. This publicly available information is compiled as of June 30 of each year by the Federal Deposit Insurance Corporation (FDIC). The Corporation's banks maintain branch offices in 53 counties across five states. In eight of these counties, the Corporation ranked in the top three in deposit market share (based on deposits as of June 30, 2012). The following table summarizes information about the counties in which the Corporation has branch offices and its market position in each county.

				No. of Financial Institutions		Deposit Market Share (June 30, 2012)		
County	State	Population (2012 Est.)	Banking Subsidiary	Banks/ Thrifts	Credit Unions	Rank	%	
Lancaster	PA	528,000	Fulton Bank, N.A.	18	11	2	24.3	%
Berks	PA	414,000	Fulton Bank, N.A.	21	10	8	4.1	%
Bucks	PA	628,000	Fulton Bank, N.A.	37	18	18	1.8	%
Centre	PA	156,000	Fulton Bank, N.A.	17	4	15	1.6	%
Chester	PA	510,000	Fulton Bank, N.A.	37	5	11	2.8	%
Columbia	PA	68,000	FNB Bank, N.A.	6	—	5	4.5	%
Cumberland	PA	241,000	Fulton Bank, N.A.	18	4	14	1.7	%
Dauphin	PA	270,000	Fulton Bank, N.A.	17	9	7	4.0	%
Delaware	PA	560,000	Fulton Bank, N.A.	38	13	29	0.2	%
Lebanon	PA	135,000	Fulton Bank, N.A.	11	1	1	30.2	%
Lehigh	PA	357,000	Lafayette Ambassador Bank	23	13	14	3.3	%
Lycoming	PA	117,000	FNB Bank, N.A.	11	10	14	0.9	%
Montgomery	PA	809,000	Fulton Bank, N.A.	47	16	25	0.5	%
Montour	PA	18,000	FNB Bank, N.A.	5	3	2	27.7	%
Northampton	PA	299,000	Lafayette Ambassador Bank	18	11	3	15.5	%
Northumberland	PA	95,000	Swineford National Bank	18	3	15	1.6	%
			FNB Bank, N.A.			7	4.7	%
Schuylkill	PA	147,000	Fulton Bank, N.A.	18	3	9	3.9	%
Snyder	PA	40,000	Swineford National Bank	8	—	2	28.0	%
Union	PA	45,000	Swineford National Bank	8	1	6	6.9	%
York	PA	439,000	Fulton Bank, N.A.	16	12	4	10.2	%
New Castle	DE	546,000	Fulton Bank, N.A.	35	19	13	0.2	%
Sussex	DE	204,000	Fulton Bank, N.A.	17	4	4	7.1	%
Anne Arundel	MD	552,000	The Columbia Bank	32	7	29	0.2	%
Baltimore	MD	815,000	The Columbia Bank	43	18	25	0.7	%
Baltimore City	MD	617,000	The Columbia Bank	37	12	16	0.3	%
Cecil	MD	102,000	The Columbia Bank	7	3	4	10.5	%
Frederick	MD	241,000	The Columbia Bank	18	3	17	0.6	%
Howard	MD	300,000	The Columbia Bank	19	3	4	10.1	%
Montgomery	MD	1,011,000	The Columbia Bank	35	20	36	0.2	%
Prince George's	MD	880,000	The Columbia Bank	20	19	18	1.0	%
Washington	MD	149,000	The Columbia Bank	12	3	2	19.2	%
Atlantic	NJ	274,000		16	5	13	1.2	%

			Fulton Bank of New Jersey					
Burlington	NJ	450,000	Fulton Bank of New Jersey	22	11	18	0.6	%
Camden	NJ	513,000	Fulton Bank of New Jersey	21	6	12	2.2	%
Cumberland	NJ	157,000	Fulton Bank of New Jersey	12	4	11	2.1	%
Gloucester	NJ	290,000	Fulton Bank of New Jersey	23	5	2	13.5	%

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County	State	Population (2012 Est.)	Banking Subsidiary	No. of Financial Institutions Banks/ Thrifts	Credit Unions	Deposit Market Share (June 30, 2012) Rank	%	
Hunterdon	NJ	128,000	Fulton Bank of New Jersey	16	3	11	2.9	%
Mercer	NJ	368,000	Fulton Bank of New Jersey	27	18	21	1.1	%
Middlesex	NJ	819,000	Fulton Bank of New Jersey	46	24	33	0.3	%
Monmouth	NJ	631,000	Fulton Bank of New Jersey	28	10	26	0.6	%
Morris	NJ	498,000	Fulton Bank of New Jersey	33	9	16	1.1	%
Ocean	NJ	582,000	Fulton Bank of New Jersey	23	5	18	0.6	%
Salem	NJ	66,000	Fulton Bank of New Jersey	8	2	1	26.0	%
Somerset	NJ	326,000	Fulton Bank of New Jersey	28	7	9	3.3	%
Sussex	NJ	148,000	Fulton Bank of New Jersey	12	—	11	0.6	%
Warren	NJ	108,000	Fulton Bank of New Jersey	13	2	4	10.1	%
Chesapeake	VA	229,000	Fulton Bank, N.A.	14	7	11	1.7	%
Fairfax	VA	1,118,000	Fulton Bank, N.A.	41	16	44	0.1	%
Henrico	VA	315,000	Fulton Bank, N.A.	21	12	20	0.7	%
Manassas	VA	41,000	Fulton Bank, N.A.	15	—	10	1.5	%
Newport News	VA	180,000	Fulton Bank, N.A.	12	6	14	0.5	%
Richmond City	VA	208,000	Fulton Bank, N.A.	17	8	15	0.2	%
Virginia Beach	VA	447,000	Fulton Bank, N.A.	16	8	11	1.5	%

Supervision and Regulation

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

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

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

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

Swineford National Bank	National	OCC
Fulton Financial (Parent Company)	N/A	FRB

OCC - Office of the Comptroller of the Currency.

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

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

Regulatory Reforms – The Dodd-Frank Act was enacted in July 2010 and resulted in significant financial regulatory reform. The Dodd-Frank Act also changed the responsibilities of the current federal banking regulators. Among other things, the Dodd-Frank Act created the Financial Stability Oversight Council, with oversight authority for monitoring and regulating systemic risk, and the Consumer Financial Protection Bureau (CPFB), which will have broad regulatory and enforcement powers over consumer financial products and services. The scope of the Dodd-Frank Act impacts many aspects of the financial services industry, and it requires the development and adoption of numerous regulations, many of which have not yet been issued. The effects of the Dodd-Frank Act on the financial services industry will depend, in large part, upon the extent to which regulators exercise the authority granted to them under the Dodd-Frank Act and the approaches taken in implementing regulations. Additional uncertainty regarding the effects of the Dodd-Frank Act exists due to court decisions and the potential for additional legislative changes to the Dodd-Frank Act. The Corporation is continuing to assess the potential impact of the Dodd-Frank Act.

The Dodd-Frank Act's provisions that have received the most public attention have generally been those which have, or will apply only to larger institutions with total consolidated assets of $50 billion or more. However, the Dodd-Frank Act contains numerous other provisions that affect all bank holding companies, including the Corporation.

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

- Federal deposit insurance – On April 1, 2011, the FDIC's revised deposit insurance assessment base changed from total domestic deposits to average total assets, minus average tangible equity. In addition, the Dodd-Frank Act created a two scorecard system, one for large depository institutions that have more than $10 billion in assets and another for highly complex institutions that have over $50 billion in assets. See details under the heading "Federal Deposit Insurance" below.
- Debit card interchange fees – In June 2011, the FRB adopted regulations which became effective on October 1, 2011 and set maximum permissible interchange fees issuers can receive or charge on debit card transactions.
- Interest on demand deposits – Beginning in July 2011, depository institutions were no longer prohibited from paying interest on business transaction and other accounts.
- Stress testing – In October 2012, the FRB issued final rules regarding company-run stress testing. The rules will require institutions with average total consolidated assets in excess of $10 billion, but less than $50 billion, to conduct an annual stress test in the manner specified, and using assumptions for baseline, adverse and severely adverse scenarios announced by the FRB. The stress test is designed to assess the potential impact of the various scenarios on the Corporation's earnings, capital levels and capital ratios over at least a nine-quarter time horizon. The Corporation's board of directors and its senior management will be required to consider the results of the stress test in the normal course of business, including as part of its capital planning process and the evaluation of the adequacy of its capital. As required, the Corporation will use data as of September 30, 2013 to conduct the stress test, using scenarios that are to be released in November 2013. Stress test results must be reported to the FRB in March 2014. Public disclosure of summary stress test results under the severely adverse scenario will begin in June 2015 for stress tests commencing in the fall of 2014. While the Corporation believes that both the quality and magnitude of its capital base are sufficient to support its current operations given its risk profile, the results of the stress testing process may lead the Corporation to retain additional capital or alter the mix of its capital components.
- Qualified mortgages - As required by the Dodd-Frank Act, the CPFB issued a series of final rules in January 2013 related to mortgage loan origination and mortgage loan servicing. These final rules, most provisions of which became effective January 10, 2014, prohibit creditors, such as the Corporation and its subsidiaries, from extending mortgage loans without regard for the consumer's ability to repay and add restrictions and requirements to mortgage origination and servicing practices. In addition, these rules restrict the imposition of prepayment penalties and compensation practices relating to mortgage loan origination. Compliance with these rules will likely increase the Corporation's

overall regulatory compliance costs and may require changes to the underwriting practices of the Corporation's subsidiaries with respect to mortgage loans. Moreover, these rules may adversely affect the volume of mortgage loans that are underwritten by the Corporation's subsidiaries and may subject the Corporation and/or its subsidiaries to increased potential liability related to such residential loan origination activities.

- Incentive compensation – As required by the Dodd-Frank Act, a joint interagency proposed regulation was issued in April 2011. The proposed rule would require the reporting of incentive-based compensation arrangements by a covered financial institution and prohibit incentive-based compensation arrangements at a covered financial institution that provides excessive compensation or that could expose the institution to inappropriate risks that could lead to material financial loss. The proposed rule, if adopted as currently proposed, could limit the manner in which the Corporation structures incentive compensation for its executives.

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

- CFPB – Effective July 21, 2011, the CFPB became responsible for administering and enforcing numerous federal consumer financial laws enumerated in the Dodd-Frank Act. The Dodd-Frank Act also provided that for banks with total assets of more than $10 billion, the CFPB would have exclusive or primary authority to examine those banks for, and enforce compliance with, the federal consumer financial laws. As of December 31, 2012, none of the Corporation's subsidiary banks had total assets of more than $10 billion, however, it's largest subsidiary bank, Fulton Bank, N. A., had $9.2 billion in assets as of December 31, 2012. The Corporation's subsidiary banks, however, remain subject to the review and supervision of other applicable regulatory authorities and such authorities may enforce compliance with regulations issued by the CFPB.
- Comprehensive Capital Analysis and Review Rules (CCAR Rules) – In November 2011, the FRB adopted rules requiring bank holding companies with total consolidated assets of $50 billion or more to submit annual capital plans to the FRB. The payment of dividends and the repurchase of stock may only be permitted under capital plans approved by the FRB. Based on its current asset size of $16.5 billion, the Corporation is well below the $50 billion threshold which would require compliance with the proposed CCAR Rules. However, while these rules would not be applicable to the Corporation, regulators could evaluate whether proposed dividend payments or stock repurchases by the Corporation represent unsafe or unsound practices in the future.
- Volcker Rule – As required by the Dodd-Frank Act, a joint interagency proposed regulation was issued in October 2011that prohibits a banking entity and nonbank financial company supervised by the FRB from engaging in proprietary trading or having certain ownership interests in, or relationships with, a hedge fund or private equity fund. The Corporation believes that it does not currently engage in the activities or have any interests or relationships, as defined in the proposed regulation, which are prohibited. However, the proposed regulation, if adopted, would place further compliance burdens on the Corporation to develop policies and procedures that ensure the Corporation, on an ongoing basis, does not engage in any activities or relationships which are prohibited.

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

Bank holding companies are required to comply with the FRB's risk-based capital guidelines that require a minimum ratio of total capital to risk-weighted assets of 8.00%. At least half of the total capital is required to be Tier 1 capital. In addition to the risk-based capital guidelines, the FRB has adopted a minimum leverage capital ratio under which a bank holding company must maintain a level of Tier 1 capital to average total consolidated assets of at least 3.00% in the case of a bank holding company which has the highest regulatory examination rating and is not contemplating significant growth or expansion. For all other bank holding companies, the minimum ratio of Tier 1 capital to total assets is 4.00%. Banking organizations with supervisory, financial, operational, or managerial weaknesses, as well as organizations that are anticipating or experiencing significant growth, are expected to maintain capital ratios well above the minimum levels. Moreover, higher capital ratios may be required for any bank holding company if warranted by its particular circumstances or risk profile. In all cases, bank holding companies should hold capital

commensurate with the level and nature of the risks, including the volume and severity of problem loans, to which they are exposed.
The Basel Committee on Banking Supervision (Basel) is a committee of central banks and bank regulators from major industrialized countries that develops broad policy guidelines for use by each country’s regulators with the purpose of ensuring that financial institutions have adequate capital given the risk levels of assets and off-balance sheet financial instruments.

In December 2010, Basel released a framework for strengthening international capital and liquidity regulations, referred to as Basel III. Basel III includes defined minimum capital ratios, which must be met when implementation occurs. An additional "capital conservation buffer" will increase the minimum rates by 2.50%, when fully phased-in. Fully phased-in capital standards under Basel III will require banks to maintain more capital than the minimum levels required under current regulatory capital standards. As Basel III is only a framework, the specific changes in capital requirements are to be determined by each country's banking regulators.

In June 2012, U.S. Federal banking regulators released two notices of proposed rulemaking (NPRs) that would implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. A third NPR related to banks that are internationally active or that are subject to market risk rules is not applicable to the Corporation.

The first NPR, "Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action," would come into effect on January 1, 2013 and the new minimum regulatory capital requirements would be fully phased in on January 1, 2019. However, the final rules have not yet been issued and are not yet applicable to the Corporation.

This NPR would apply to all depository institutions, bank holding companies with total consolidated assets of $500 million or more, and savings and loan holding companies (collectively, banking organizations). Consistent with the international Basel framework, this NPR would:

- Increase the quantity and quality of capital required by proposing a new minimum Common Equity Tier 1 capital ratio of 4.50% of risk-weighted assets and raising the minimum Tier 1 capital ratio from 4.00% to 6.00% of risk-weighted assets;
- Retain the current minimum Total capital ratio of 8.00% of risk-weighted assets and the minimum Tier 1 leverage capital ratio at 4.00% of average assets;
- Introduce a “capital conservation buffer” of 2.50% above the minimum risk-based capital requirements, which must be maintained to avoid restrictions on capital distributions and certain discretionary bonus payments; and
- Revise the definition of capital to improve the ability of regulatory capital instruments to absorb losses.

The second NPR, "Regulatory Capital Rules: Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements," also would apply to all banking organizations. This NPR would revise and harmonize the rules for calculating risk-weighted assets to enhance risk sensitivity and address weaknesses that have been identified over the past several years. Banks and regulators use risk weighting to assign different levels of risk to different classes of assets and off-balance sheet exposures - riskier items require higher capital cushions and less risky items require smaller capital cushions. As proposed, this NPR would come into effect on January 1, 2015; however, final rules have not been issued.

As of December 31, 2012, the Corporation believes its current capital levels would meet the fully-phased in minimum capital requirements, including capital conservation buffers, as proposed in the NPRs.

The Basel III framework also includes new liquidity requirements which, when implemented by U.S. bank regulators, may require the Corporation to maintain increased levels of liquid assets or alter its strategies for liquidity management. The Basel III liquidity framework requires banks and bank holding companies to measure their liquidity against specific ratios. One ratio, referred to as the Liquidity Coverage Ratio, or LCR, is designed to ensure that sufficient high quality liquid resources are available for a one month survival in case of a stress scenario. A second ratio, referred to as the Net Stable Funding Ratio (NSFR), is designed to promote resiliency over longer-term time horizons by creating additional incentives for banks to fund their activities with more stable sources of funding on an ongoing structural basis. These new liquidity standards are subject to further rulemaking and their terms may change before implementation. U.S. bank regulators have not proposed rules implementing the Basel III liquidity framework and have not determined to what extent they will apply to U.S. banks that are not large, internationally active banks.

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

Liquidity must also be managed at the Fulton Financial Corporation Parent Company level. For safety and soundness reasons, banking regulations limit the amount of cash that can be transferred from subsidiary banks to the Parent

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

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

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

In November 2009, the FDIC issued a ruling requiring insured depository institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. As of December 31, 2012, the balance of prepaid FDIC assessments included in other assets on the Corporation's consolidated balance sheet was $23.6 million.

On April 1, 2011, as required by the Dodd-Frank Act, the deposit insurance assessment base changed from total domestic deposits to average total assets, minus average tangible equity. In addition, the FDIC also created a two scorecard system, one for large depository institutions that have $10 billion or more in assets and another for highly complex institutions that have $50 billion or more in assets. As of December 31, 2012, none of the Corporation's individual subsidiary banks had assets of $10 billion or more and would, therefore, not meet the classification of large depository institutions.

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

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

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

Executive Officers

As of December 31, 2012, the executive officers of the Corporation are as follows:

Name	Age	Office Held and Term of Office
R. Scott Smith, Jr.	65	Director of Fulton since 2001. Mr. Smith retired as Chairman of the Board and Chief Executive Officer of Fulton as of January 1, 2013. He served as Chairman of the Board and Chief Executive Officer from January 2006 to December 2012 and also served as a Director of Fulton Bank from 1993 to 2002. He has been a Director of The Federal Reserve Bank of Philadelphia from 2010 to present and a member of the Federal Advisory Council to the Federal Reserve Board, Washington, DC from 2008 to 2010. Mr. Smith was a Director of the American Bankers Association from 2006 to 2009, was employed by Fulton from 1978 to 2012 in various positions and worked in financial services since 1969.
E. Philip Wenger	55	Director of Fulton since 2009. Mr. Wenger was appointed Chairman of the Board, President and Chief Executive Officer of Fulton Financial Corporation on January 1, 2013. He previously served as President and Chief Operating Officer of Fulton Financial Corporation from 2008 to 2012, a Director of Fulton Bank from 2003 to 2009, Chairman of Fulton Bank from 2006 to 2009 and has been employed by Fulton in a number of positions since 1979.
Charles J. Nugent	64	Senior Executive Vice President and Chief Financial Officer of Fulton Financial Corporation since January 2001; and Executive Vice President and Chief Financial Officer of Fulton Financial Corporation from 1992 to 2001. Mr. Nugent has served as a director of the Federal Home Loan Bank of Pittsburgh since 2010.
Craig H. Hill	57	Senior Executive Vice President of Fulton Financial Corporation since January 2006 and Executive Vice President/Director of Human Resources from 1999 through 2005. Mr. Hill serves as the Corporation's Senior Human Resources Officer.
Craig A. Roda	56	Senior Executive Vice President of Community Banking of Fulton Financial Corporation since July 2011; and Chairman and Chief Executive Officer of Fulton Bank, N.A., since February 2009. Chief Executive Officer and President of Fulton Bank, N.A. from 2006 to 2009.
Philmer H. Rohrbaugh	60	Senior Executive Vice President and Chief Risk Officer, effective November 1, 2012. Managing partner of KPMG, LLP's Chicago office from 2009 to 2012. He originally joined KPMG in 2002 where he has held various management positions and also has more than 25 years of experience in various positions at Arthur Andersen. Mr. Rohrbaugh, who is a Certified Public Accountant, also serves on the Board of Directors of Burnham Holdings, Inc. and Ann & Robert H. Lurie's Children's Hospital of Chicago.
James E. Shreiner	63	Senior Executive Vice President of Administrative Services of Fulton Financial Corporation since January 2006; and Executive Vice President of Fulton Financial Corporation and Executive Vice President of Fulton Bank from 2000 to 2005.

Item 1A. Risk Factors

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

While economic conditions have been improving, the Corporation continues to operate in a challenging business environment.

Since emerging from a recession during the second half of 2009, the U.S. economy has generally been improving; however, the pace of economic growth has been somewhat sluggish and uneven. There can be no assurance that this improvement will continue and certain sectors, such as real estate and manufacturing, remain weak and unemployment remains high. Some state and local governments and many businesses are still experiencing serious financial difficulty.

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

- Low market interest rates, which have been projected by many to continue for some time, have pressured net interest margins as interest-earning assets, such as loans and investments, have been originated, acquired or repriced at lower rates. Banks are also reluctant to invest in longer-term assets at historically low interest rates;
- Loan demand remains sluggish, as consumers continue to reduce debt levels and increase savings and many businesses are reluctant to expand their operations, and intense competition among lenders is contributing to downward pressure on loan yields. Confidence levels of both individuals and businesses in the economy appear to be improving, but their confidence remains fragile;
- The time and expense associated with regulatory compliance and risk management efforts continues to increase. Thus, balancing the need to address regulatory expectations and to implement additional enterprise risk management practices against the need to effectively manage growth in non-interest expenses has become more challenging than it has been in the past;
- Bank regulators are scrutinizing banks through longer and more extensive bank examinations in both the safety and soundness and the compliance areas;
- The bank regulatory agencies have been challenged in implementing many of the regulations mandated by the Dodd-Frank Act on the timelines contemplated by such legislation, resulting in a lack of clear regulatory guidance to banks. The resulting uncertainty has caused banks to take a cautious approach to business initiatives and planning;
- The reputation of, and public confidence in, the banking industry appears to have suffered as a result of continuing criticisms of the industry by politicians and the media. In many cases, these criticisms have not differentiated community banking organizations, such as the Corporation, from larger, more diverse organizations that engaged in certain practices that many observers believe helped contribute to the recent difficulties in the financial markets and the economy generally;
- Some traditional sources of non-interest income for banks, such as interchange fees assessed on debit card transactions and fees for overdraft services, have become the subject of increased regulation;
- Merger and acquisition activity in the banking industry has been restrained due to factors such as market volatility, lower market prices of the stock of potential buyers, lingering credit concerns, regulatory uncertainty and a disparity in price expectations between potential buyers and potential sellers. As a result, supplementing internal growth through acquisitions has been more difficult than in the past; and
- Concerns about political and financial uncertainties, such as the European Union sovereign debt crisis and the potential impact of the inability of the U.S. federal government to effectively resolve the negotiations relating to the so-called "fiscal cliff," budget sequestration and debt ceiling, have caused uncertainty for financial markets globally.

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

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

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

Economic downturns and the composition of the Corporation's loan portfolio could impact the level of loan charge-offs and the provision for credit losses and may affect the Corporation's net income. National, regional and local economic conditions can impact the Corporation's loan portfolio. For example, an increase in unemployment, a decrease in real estate values or increases in interest rates, as well as other factors, could weaken the economies of the communities the Corporation serves. Weakness in the market areas served by the Corporation may depress the Corporation's earnings and consequently its financial condition because:

- borrowers may not be able to repay their loans;
- the value of the collateral securing the Corporation's loans to borrowers may decline; and
- the quality of the Corporation's loan portfolio may decline.

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

Approximately $5.2 billion, or 43.2%, of the Corporation's loan portfolio was in commercial mortgage and construction loans at December 31, 2012. The Corporation did not have a concentration of credit risk with any single borrower, industry or geographical location. However, the performance of real estate markets and the weak economic conditions in general may adversely impact the performance of these loans.

In 2012, the Corporation's provision for credit losses was $94.0 million. While the Corporation believes that its allowance for credit losses as of December 31, 2012 is sufficient to cover losses inherent in the loan portfolio on that date, the Corporation may be required to increase its provision for credit losses due to changes in the risk characteristics of the loan portfolio, thereby negatively impacting its results of operations.

- Economic downturns or a protracted low-growth environment, particularly when these conditions affect the Corporation's geographic market areas, could reduce the demand for the Corporation's financial products, such as loans and deposits. The Corporation's success depends significantly upon the growth in population, employment and income levels, deposits, loans and housing starts in its geographic markets. Unlike large, national institutions, the Corporation is not able to spread the risks of unfavorable local economic conditions across a large number of diversified economies and geographic locations. If the communities in which the Corporation operates do not grow, or if prevailing economic conditions locally or nationally are unfavorable, its business could be adversely affected. In addition, increased market competition in a lower demand environment could adversely affect the profit potential of the Corporation; for example, in order to remain competitive, the Corporation may be required to offer interest rates on loans and deposits that might not be offered in different business conditions.

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

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

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

Net interest income is the most significant component of the Corporation's net income, accounting for approximately 72% of total revenues in 2012. The narrowing of interest rate spreads, the difference between interest rates earned on loans and investments and interest rates paid on deposits and borrowings, could adversely affect the Corporation's net interest income and financial condition. Regional and local economic conditions, as well as fiscal and monetary policies of the federal government, including those of the Federal Reserve Board, may affect prevailing interest rates. The Corporation cannot predict or control changes in interest rates.

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

Price fluctuations in securities markets, as well as other market events, such as a disruption in credit and other markets and the abnormal functioning of markets for securities, could have an impact on the Corporation's results of operations. As described below, the Corporation's holdings of certain securities and the revenues the Corporation earns from its trust and investment management services business are particularly sensitive to those events:

- Equity Investments. As of December 31, 2012, the Corporation's equity investments included common stocks of publicly traded financial institutions (totaling $44.2 million). The value of the securities in the Corporation's equity portfolio may be affected by a number of factors, including factors that impact the performance of the U.S. securities market in general and specific risks associated with the financial institution sector. General economic conditions and uncertainty surrounding the financial institution sector as a whole has impacted the value of these securities. Declines in bank stock values, in general, as well as deterioration in the performance of specific banks, could result in other-than-temporary impairment charges. The Corporation's holdings of publicly traded financial institutions include shares of a single financial institution which, as of December 31, 2012, had a fair value of $21.6 million. The Corporation's holdings of this financial institution constituted approximately 50% of the fair value of the Corporation's aggregate holdings of publicly traded financial institutions as of that date.

- Corporate Debt Securities. As of December 31, 2012, the Corporation had $110.3 million of corporate debt securities issued by financial institutions. As with stocks of financial institutions, declines in the values of these securities, combined with adverse changes in the expected cash flows from these investments, could result in other-than-temporary impairment charges.

- Municipal Securities. As of December 31, 2012, the Corporation had $315.5 million of municipal securities issued by various municipalities in its investment portfolio. Ongoing uncertainty with respect to the financial viability of municipal insurers places greater emphasis on the underlying strength of issuers. Increasing pressure on local tax revenues of issuers due to adverse economic conditions could also have a negative impact on the underlying credit quality of issuers. The Corporation evaluates existing and potential holdings primarily on the underlying credit-worthiness of the issuing municipality and then, to a lesser extent, on the credit enhancement corresponding to the individual issuance. As of December 31, 2012, approximately 95% of municipal securities were supported by the general obligation of corresponding municipalities. In addition, approximately 79% of these securities were school district issuances that are supported by the general obligation of the corresponding municipalities as of December 31, 2012.

- Auction Rate Securities. The investment management and trust services division of Fulton Bank, N.A., Fulton Financial Advisors, previously held student loan auction rate securities, also known as auction rate certificates (ARCs), for some of its customers' accounts. During 2008 and 2009, the Corporation purchased illiquid ARCs from customers of Fulton Financial Advisors. As of December 31, 2012 the Corporation had $149.3 million of investments in ARCs. ARCs are long-term securities that were structured to allow their sale in periodic auctions, resulting in both the treatment of ARCs as short-term instruments in normal market conditions and fair values that could be derived based on periodic auction prices. However, beginning, in 2008, market auctions for these securities began to fail due to an insufficient number of buyers, resulting in an illiquid market. This illiquidity has resulted in recent market prices that represent forced liquidations or distressed sales and do not provide an accurate basis for fair value. Therefore, as of December 31, 2012, the fair values of the ARCs were derived using significant unobservable inputs based on an expected cash flows model which produced fair values which were materially different from those that would be expected from settlement of these investments in the illiquid market that presently exists. The Corporation believes that the trusts underlying the ARCs will self-liquidate as student loans are repaid.

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

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

The time, expense and internal and external resources associated with regulatory compliance continue to increase. Thus, balancing the need to address regulatory changes and effectively manage growth in non-interest expenses has become more challenging than it has been in the past.

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

Compliance with banking statutes and regulations is important to the Corporation's ability to engage in new activities and to consummate additional acquisitions. Bank regulators are scrutinizing banks through longer and more extensive bank examinations in both the safety and soundness and compliance areas. The results of such examinations could result in a delay in receiving required regulatory approvals for potential new activities and transactional matters. In the event that the Corporation's compliance record would be determined to be unsatisfactory, such approvals may not be able to be obtained. Federal and state banking regulators also possess broad powers to take supervisory actions, as they deem appropriate. These supervisory actions may result in higher capital requirements, higher deposit insurance premiums and limitations on the Corporation's operations and expansion activities that could have a material adverse effect on its business and profitability.

The federal government, the Federal Reserve Board and other governmental and regulatory bodies have taken, and may in the future take other actions, in response to the stress on the financial system. For example, the Federal Reserve Board recently announced its intention to maintain short-term interest rates near zero at least until certain unemployment and inflation targets are reached, which the Federal Reserve Board currently believes will not occur until at least mid-2015. Such actions, although intended to aid the financial markets, and continued volatility in the markets, could materially and adversely affect the Corporation's business, financial condition and results of operations, or the trading price of the Corporation's common stock.

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

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

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

The scope of the Dodd-Frank Act impacted many aspects of the financial services industry, and it requires the development and adoption of many regulations, a significant number of which have not yet been adopted or fully implemented. The effects of the Dodd-Frank Act on the financial services industry will depend, in large part, upon the extent to which regulators exercise the authority granted to them under the Dodd-Frank Act and the approaches taken in implementing regulations. Additional uncertainty regarding the effect of the Dodd-Frank Act exists due to court decisions and the potential for additional legislative changes to the Dodd-Frank Act. The Corporation, as well as the broader financial services industry, is continuing to assess the potential impact of the Dodd-Frank Act (and its possible impact on customers' behaviors) on its business and operations but, at this stage, the extent of the impact cannot be fully determined with any degree of certainty. However, the Corporation has been impacted, and will likely continue to be in the future, by the so-called Durbin Amendment to the Dodd-Frank Act, which reduced debit card interchange revenue of banks; and revised deposit insurance assessments. It also is likely to be impacted by the Dodd-Frank Act in the areas of corporate governance, capital requirements, risk management, stress testing and regulation under consumer protection laws.

The Dodd-Frank Act established the CFPB. Among other things, the CFPB was given rulemaking authority over most providers of consumer financial services in the U.S., examination and enforcement authority over the consumer operations of large banks, as well as interpretive authority with respect to numerous existing consumer financial services regulations. The CFPB began exercising these oversight authorities over the largest banks during 2011. Because this is an entirely new agency, the impact on the Corporation, including its retail banking and mortgage businesses, is largely uncertain. However, any new regulatory requirements, or modified interpretations of existing regulations, will affect the Corporation's consumer business practices and operations, potentially resulting in increased compliance costs. Furthermore, the CFPB represents an additional source of potential enforcement or litigation against the Corporation and, as an entirely new agency with a focus on consumer protection, the CFPB may have new or different enforcement or litigation strategies than those typically utilized by other regulatory agencies. Such actions could further increase the Corporation's costs.

The delay in the implementation of many of the regulations mandated by the Dodd-Frank Act on the timelines contemplated by such legislation has resulted in a lack of clear regulatory guidance to banks. The resulting uncertainty has caused banks to take a cautious approach to business initiatives and planning.

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

Virtually every aspect of the Corporation's operations is subject to extensive regulation and, in the current economic, political and regulatory climate, the Corporation and its bank subsidiaries are subject to heightened regulatory scrutiny, especially given the Corporation's size and complexity. The Corporation maintains a system of internal controls designed to achieve compliance with applicable laws and regulations for itself and its bank subsidiaries. Weaknesses in the design or effectiveness of this system, however, may expose the Corporation and its bank subsidiaries to fines and penalties for non-compliance, in some cases, even though the noncompliance was inadvertent or unintentional. Through the Corporation's compliance and internal audit functions, potential areas of regulatory non-compliance are evaluated and, if identified, are corrected with ongoing action plans developed, implemented and routinely monitored. In addition, through regular examinations, the Corporation's and its bank subsidiaries' primary bank regulators identify areas of regulatory non-compliance or weakness and require or suggest corrective actions, which are similarly corrected through ongoing corrective action plans which are developed, implemented and routinely monitored.

The failure of the Corporation to comply with applicable regulations, or the failure to develop, implement and comply with corrective action plans to address any identified areas of noncompliance, may result in the assessment of fines and penalties and the commencement of informal or formal regulatory enforcement actions against the Corporation or its bank subsidiaries. Other negative consequences also can result from such failures, including regulatory restrictions on the Corporation's activities, reputational damage (see below), restrictions on the ability of institutional investment managers to invest in the Corporation's securities and increases in the Corporation's costs of doing business. Increases in the Corporation's costs of doing business may include increased salaries and benefits expenses associated with hiring additional employees, incurring fees and expenses for outside services, such as consulting and legal advice, and costs associated with enhancing, or acquiring systems and technological infrastructure to strengthen the Corporation's regulatory compliance program. The occurrence of one or more of these events may have a material adverse effect on the Corporation's business, financial condition or results of operations.

Three of the Corporation's bank subsidiaries have been informed by their federal banking regulator that they may become subject to civil money penalties for certain alleged failures to comply with The Flood Disaster Protection Act, referred to as the Flood Act. Any such civil money penalties have yet to be finalized, but are subject to a statutory maximum of $135,000 per institution. Each such bank subsidiary, as well as the Corporation, has taken corrective actions, including enhancing policies and procedures related to compliance with the Flood Act, allocating additional resources to the compliance and internal audit functions and affected business units, and providing appropriate training of employees, and adopted a comprehensive action plan that will be administered by such banks and by the Corporation through its central regulatory compliance function. In the event the Corporation and the affected bank subsidiaries do not implement the corrective actions and comply with their actions plans, then the Corporation and such banks may be subject to further enforcement action. The terms of any such further enforcement action, or the failure to comply with same, may have a material adverse effect on the Corporation's business, financial condition or results of operations.

The heightened, industry-wide attention associated with the processing of residential mortgage foreclosures may adversely affect the Corporation's business.
As a result of the economic downturn which began in December, 2007, larger banks and mortgage servicing companies have been challenged with processing tens of thousands of foreclosures nationwide. In late 2010, the media began reporting on possible processing errors and documentation problems in mortgage foreclosures at several of the nation's largest banks and mortgage servicing businesses. It was reported that, in some foreclosures, the procedural steps (which often vary by state and in some cases by local jurisdictions within a state) required to complete a foreclosure had not been followed. As a result, there were questions concerning the validity of some foreclosures. Since 2010 the foreclosure procedures used by banks and servicing companies have continued to come under scrutiny

by consumer advocates, attorneys representing borrowers, state Attorney Generals and banking regulators. In April 2011, federal banking regulators announced formal enforcement actions against 14 of the largest mortgage servicing firms related to deficiencies in their residential mortgage loan servicing and foreclosure processing practices. In January 2013, federal banking regulators announced that they had reached agreements in principle with 13 of those mortgage servicing firms to provide $9.3 billion in cash compensation and mortgage assistance to residential mortgage borrowers affected by deficiencies in their residential mortgage loan servicing and foreclosure processing practices.

As a financial institution, the Corporation offers a variety of residential mortgage loan products. A majority of the mortgage loans originated by the Corporation are made in the Corporation's five-state market. The Corporation also services loans owned by investors in accordance with the investors' guidelines. A small percentage of the Corporation's residential mortgage borrowers default on their mortgage loans. When this occurs, the Corporation attempts to resolve the default in a way that provides the greatest return to the Corporation or is in accordance with investor guidelines; typically, options are pursued that allow the borrower to remain the owner of their home. However, when these efforts are not successful, it becomes necessary for the Corporation to foreclose on the loan. The Corporation analyzes whether foreclosure is necessary on a case-by-case basis and the number of residential foreclosures undertaken by the Corporation is not substantial. The Corporation initiated approximately 325, 300 and 400 residential foreclosure actions during 2012, 2011 and 2010, respectively, for residential loans the Corporation owned or serviced for investors.

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

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

The Corporation is exposed to many types of operational risk.

The Corporation is exposed to many types of operational risk, including the risk of fraud by employees and outsiders, unsatisfactory performance by employees and vendors, clerical and record-keeping errors, and computer and telecommunications systems malfunctions. The Corporation's businesses are dependent on its ability to process a large number of increasingly complex transactions. If any of the Corporation's financial, accounting, compliance or other data processing controls or systems fail or have other significant shortcomings, the Corporation could be materially adversely affected. The Corporation is similarly dependent on its employees. The Corporation could be materially adversely affected if one of its employees causes a significant operational break-down or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our operations or systems. Third parties with which the Corporation does business could also be sources of operational risk to it, including the possibilities of breakdowns or failures of such parties' systems or employees. Any of these occurrences could result in the Corporation's diminished ability to operate one or more of its businesses, financial loss, potential liability to customers, inability to secure insurance, reputational damage and regulatory intervention, which could materially adversely affect the Corporation.

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

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

The Corporation historically has followed a “super-community” banking strategy under which the Corporation has operated its subsidiary banks autonomously to maximize the advantage of community banking and service to its customers. This banking strategy challenges the Corporation's efforts to manage risk efficiently and effectively through a centralized risk management and compliance function. The evolving need for organization-wide risk management procedures may require changes in the Corporation's historical de-centralized operating approach.

Negative publicity could damage the Corporation's reputation.

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

In addition to the reputation risk of the Corporation, the reputation of, and public confidence in, the banking industry appears to have suffered as a result of continuing criticisms of the industry by politicians and the media. In many cases, these criticisms have not differentiated community banking organizations, such as the Corporation, from larger, more diverse organizations that engaged in certain practices that many observers believe helped contribute to the recent difficulties in the financial markets and the economy generally.

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

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

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

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

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

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

The Corporation expects to complete its transition to a new core processing system during 2013. The core processing system is used to maintain customer and account records, reflect account transactions and activity, and support the Corporation's customer relationship management systems for substantially all of the Corporation's deposit and loan customers. The Corporation has assembled a team of officers and employees representing key business units and functional areas throughout the Corporation to plan and oversee the transition process. This team, working with the vendor for the core processing system and outside project management consultants, has developed a comprehensive work plan for completing the transition. The transition will be completed in several phases, with between one and three of the Corporation's six subsidiary banks being transitioned to the new system in each phase. Extensive pre-transition testing of, and employee training in, processing routines and new core processing system operation will be conducted before each of the Corporation's subsidiary banks are transitioned to the new core processing system. The phased approach is expected to facilitate pre-transition system testing and employee training, reduce the potential impact of any unanticipated events that may arise during the conversion and enable the Corporation to allocate sufficient resources to both transition-related tasks and routine processing and customer service activities.

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

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

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

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

Merger and acquisition activity in the banking industry has been restrained, and may continue to be restrained, by market factors. Regulatory factors could also be an impediment to growth through acquisitions.

The Corporation has historically supplemented its internal growth with strategic acquisitions of banks, branches and other financial services companies. However, merger and acquisition activity in the banking industry has been restrained in recent years due to factors such as market volatility, lower market prices of the stock of potential buyers, lingering credit concerns, increased regulatory scrutiny and a disparity in price expectations between potential buyers and potential sellers. As a result, supplementing internal growth through acquisitions has been more difficult.

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

If the purchase price of an acquired company exceeds the fair value of the company's net assets, the excess is carried on the acquirer's balance sheet as goodwill. Companies must evaluate goodwill for impairment at least annually. A more frequent evaluation could be triggered by, for example, a broad price decline in the shares of comparable publicly traded financial institutions. Write-downs of the amount of any impairment, if necessary, are to be charged to earnings in the period in which the impairment occurs.

Based on its annual goodwill impairment tests, the Corporation determined that no impairment charges were necessary in 2012, 2011, 2010, or 2009. During 2008, the Corporation recorded a $90.0 million goodwill impairment charge. As of December 31, 2012, the Corporation had $530.7 million of goodwill on its consolidated balance sheet. There can be no assurance that future evaluations of goodwill will not result in additional impairment charges.

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

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

In February 2011, as required under the Dodd-Frank Act, the FDIC issued a ruling pursuant to which the assessment base against which FDIC assessments for deposit insurance are made was changed. Instead of FDIC insurance assessments being based upon an insured bank's deposits, FDIC insurance assessments are now generally based on an insured bank's total average assets, minus average tangible equity. With this change, the Corporation's overall FDIC insurance cost has declined. However, a change in the risk categories applicable to the Corporation's bank subsidiaries, further adjustments to base assessment rates and any special assessments could have a material adverse effect on the Corporation. In addition, should one of the Corporation's subsidiary banks have assets above $10 billion for four consecutive quarters, a higher assessment could apply to that subsidiary for the purposes of calculating its FDIC insurance premium. The Corporation's largest subsidiary bank, Fulton Bank, N. A., had $9.2 billion in assets as of December 31, 2012. Based on current regulations, the Corporation has estimated that Fulton Bank, N. A., would pay approximately $1 million in additional annual FDIC insurance premiums if it were to reach the $10 billion threshold.

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

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

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

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

Competition may adversely affect the rates the Corporation pays on deposits and charges on loans, thereby potentially adversely affecting the Corporation's profitability. The Corporation's profitability depends upon its continued ability to successfully compete in the market areas it serves. Further, intense competition among lenders is contributing to downward pressure on loan yields.

The Corporation's mortgage banking line of business is cyclical, and may present specific risks.

Demand for residential mortgage loans has historically tended to increase during periods when interest rates were declining, and to decrease during periods when interest rates were rising.

Residential mortgage lending activity affects the Corporation's results of operations in a number of ways. When the Corporation originates and then sells a residential mortgage loan to investors in the secondary market, the Corporation typically recognizes an immediate gain on the sale of the residential mortgage loan, and if the Corporation continues to provide loan servicing in connection with the sold residential mortgage loan, the Corporation realizes mortgage servicing income during the life of the loan. When the Corporation originates a residential mortgage loan and retains that residential mortgage loan in its loan portfolio, the Corporation recognizes interest income as the borrower makes periodic payments.

During 2012, long-term interest rates in general, and those for residential mortgage loans in particular, were at or near historic lows. This low level of interest rates contributed to a significant increase in the volume of residential mortgage loans originated by the Corporation, a significant increase in gains realized on the sale of some of those loans to investors in the secondary market, and significant growth in the Corporation's residential mortgage loans held in its loan portfolio during 2012. This level of growth is unlikely to be repeated in 2013.

The Corporation provides customary representations and warranties to investors in the secondary mortgage market. These representations and warranties specify that, among other things, the loans sold have been underwritten to the standards established by the investor. The Corporation may be required to repurchase a loan or reimburse the investor for a credit loss incurred on a loan if it is determined that the representations and warranties have not been met. As of December 31, 2012 and 2011, the reserve for losses on residential mortgage loans sold was $6.0 million and $1.6 million, respectively.

The estimated fair value of mortgage servicing rights (MSRs) related to residential mortgage loans sold and serviced by the Corporation is recorded as an asset upon the sale of such loans. MSRs are amortized as a reduction to servicing income over the estimated lives of the underlying loans. MSRs are also evaluated for impairment. As interest rates decline, the rate of prepayment of residential mortgage loans typically increases, which can result in increased amortization of MSRs. The fair value of MSRs can decrease based on a number of factors, most notably an increase in prepayment speed projections. A reduction in the fair value of mortgage servicing rights is recorded as a valuation allowance and is recognized as a reduction in mortgage servicing income.

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

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

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

Capital planning has taken on more importance due to regulatory requirements and the proposed Basel III capital standards.

Consistent with current regulatory guidance, the Corporation prepares an internal capital plan, which is updated at least annually, and consults with the Federal Reserve in advance of undertaking any significant capital-related actions, such as declaring an increased cash dividend or approving a share repurchase program. Beginning in the fall of 2013 and annually thereafter, the Corporation, like other banking organizations with consolidated assets in excess of $10 billion, but less than $50 billion, will be required to conduct a stress test in the manner specified, and using assumptions for baseline, adverse and severely adverse scenarios announced by the Federal Reserve. The stress test is designed to assess the potential impact of the various scenarios on the Corporation's earnings, capital levels and capital ratios over at least a nine-quarter time horizon. The Corporation's board of directors and its senior management will be required to consider the results of the stress test in the normal course of business, including as part of its capital planning process and the evaluation of the adequacy of its capital. The Corporation will also be required to report the results of the annual stress test to the Federal Reserve, and beginning with the stress test conducted in the fall of 2014, publicly disclose a summary of the results of the stress test completed under the severely adverse scenario. While the Corporation believes that both the quality and magnitude of its capital base are sufficient to support its current operations given its risk profile, the results of the stress testing process may lead the Corporation to retain additional capital or alter the mix of its capital components. In addition, the implementation of certain regulations with regard to regulatory capital could disproportionately affect the Corporation's regulatory capital position relative to that of its competitors, including those who may not be subject to the same regulatory requirement, which could put further pressure on the price of the Corporation's common stock.

The federal banking regulatory agencies have proposed regulations implementing the Basel III capital standards. The Basel III proposals would change required levels of capital and how banks calculate their regulatory capital and revise and harmonize the rules for calculating risk-weighted assets to enhance risk sensitivity and address weaknesses that have been identified over the past several years. The proposals would increase the minimum levels of required capital, narrow the definition of capital, and increase the risk weights for various asset classes.

Specifically, fully phased-in capital standards under Basel III would require banks to maintain more capital than the minimum levels required under current regulatory capital standards. The new requirements would (i) include a new minimum common equity tier 1 capital ratio of 4.5% of risk-weighted assets, (ii) raise the minimum tier 1 capital ratio from 4.0% to 6.0% of risk-weighted assets, (iii) retain the current minimum total capital ratio of 8.0% of risk-weighted assets and the minimum tier 1 leverage capital ratio at 4.0% of average assets and (iv) introduce a “capital conservation buffer” of 2.5% above the minimum risk-based capital requirements; the capital conservation buffer must be maintained to avoid restrictions on capital distributions and certain discretionary bonus payments.

The new minimum regulatory capital requirements would be fully phased in on January 1, 2019. However, the final rules have not yet been issued and are not yet applicable to the Corporation. As of December 31, 2012, the Corporation believes its current capital levels would meet the fully-phased in minimum capital requirements, including capital conservation buffers, as proposed in the Basel III capital standards.

Liquidity planning at both the holding company and the bank levels has become an area of increased regulatory emphasis.

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

The Basel III proposals, in addition to new capital standards, also include new liquidity requirements which, when implemented by U.S. bank regulators, may require the Corporation to maintain increased levels of liquid assets or alter its strategies for liquidity management.

Liquidity must also be managed at the parent company level. Banking regulators are paying close attention to liquidity at the holding company level, in addition to consolidated and bank liquidity levels. This focus has affected some institutions' ability to pay dividends and has required some institutions to establish borrowing facilities at the holding company level. For safety and soundness reasons, banking regulations limit the amount of cash that can be transferred from subsidiary banks to the parent company in the form of loans and dividends. Generally, these limitations are based on the subsidiary banks' regulatory capital levels and their net income. The Corporation continues to monitor the liquidity and capital needs of the parent company and will implement appropriate strategies, as necessary, to remain adequately capitalized and to meet its cash needs.

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

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

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

A downgrade in the credit ratings of the Corporation or its bank subsidiaries could have a material adverse impact on the Corporation.

Fitch, Inc. and Moody's Investors Service, Inc. continuously evaluate the Corporation and our subsidiaries, and their ratings of the Corporation and its subsidiary's long-term and short-term debt are based on a number of factors, including financial strength, as well as factors not entirely within its and its subsidiaries' control, such as conditions affecting the financial services industry generally. Moreover, Fitch and Moody's have indicated that they are evaluating the impact of the Dodd-Frank Act on the rating support assumptions currently included in their methodologies. In light of these reviews and the continued focus on the financial services industry generally, the Corporation and its subsidiaries may not be able to maintain their current respective ratings. Ratings downgrades by Fitch or Moody's could have a significant and immediate impact on the Corporation's funding and liquidity through cash obligations, reduced funding capacity and collateral triggers. A reduction in the Corporation's or its subsidiaries' credit ratings could also increase the Corporation's borrowing costs and limit its access to the capital markets.

Downgrades in the credit or financial strength ratings assigned to the counterparties with whom the Corporation transact, could create the perception that the Corporation's financial condition will be adversely impacted as a result of potential future defaults by such counterparties. Additionally, the Corporation could be adversely affected by a general, negative perception of financial institutions caused by the downgrade of other financial institutions. Accordingly, ratings downgrades for other financial institutions could affect the Corporation's market capitalization and could limit access to or increase its cost of capital.

Many aspects of the Corporation's operations are dependent upon the soundness of other financial institutions.

The commercial soundness of many financial institutions may be closely interrelated as a result of credit, trading, execution of transactions or other relationships between the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This is sometimes referred to as “systemic risk” and may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges, with which we interact on a daily basis, and therefore could adversely affect the Corporation.

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

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

Item 1B. Unresolved Staff Comments
None.

Item 2. Properties

The following table summarizes the Corporation's full-service branch properties, by subsidiary bank, as of December 31, 2012. Remote service facilities (mainly stand-alone automated teller machines) are excluded.

Subsidiary Bank	Owned	Leased	Total Branches
Fulton Bank, N.A.	47	72	119
Fulton Bank of New Jersey	39	32	71
The Columbia Bank	9	30	39
Lafayette Ambassador Bank	5	18	23
FNB Bank, N.A.	6	2	8
Swineford National Bank	5	2	7
Total	111	156	267

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

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

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

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Common Stock

As of December 31, 2012, the Corporation had 199.2 million shares of $2.50 par value common stock outstanding held by approximately 42,000 holders of record. The closing price per share of the Corporation’s common stock on December 31, 2012 was $9.61. The common stock of the Corporation is traded on the Global Select Market of The NASDAQ Stock Market under the symbol FULT.

The following table presents the quarterly high and low prices of the Corporation’s common stock and per common share cash dividends declared for each of the quarterly periods in 2012 and 2011:

	Price Range		Per Common
	High	Low	Share Dividend
2012			
First Quarter	$10.80	$9.18	$0.07
Second Quarter	10.68	9.32	0.07
Third Quarter	10.72	8.75	0.08
Fourth Quarter	10.49	9.22	0.08
2011			
First Quarter	$11.54	$9.81	$0.04
Second Quarter	11.91	10.17	0.05
Third Quarter	11.27	7.44	0.05
Fourth Quarter	10.24	7.18	0.06

Restrictions on the Payments of Dividends

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

Securities Authorized for Issuance under Equity Compensation Plans
The following table provides information about options outstanding under the Corporation’s 2004 Stock Option and Compensation Plan and the number of securities remaining available for future issuance under the Corporation's 2004 Stock Option and Compensation Plan, the 2011 Directors' Equity Participation Plan and the Employee Stock Purchase Plan as of December 31, 2012:

Plan Category	Equity compensation plans approved by security holders	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column) (1)
Equity compensation plans approved by security holders	6,076,121	$ 13.17	12,755,480
Equity compensation plans not approved by security holders	—	N/A	—
Total	6,076,121	$ 13.27	12,755,480

(1) Consists of 11,811,046 shares that may be awarded under the 2004 Stock Option and Compensation Plan, 468,907 shares that may be awarded under the 2011 Directors' Equity Participation Plan and 475,527 of shares that may be purchased under the Employee Stock Purchase Plan. Excludes accrued purchase rights under the Employee Stock Purchase Plan as of December 31, 2012 as the number of shares to be purchased is indeterminable until the time shares are issued.

Performance Graph
The graph below shows cumulative investment returns to shareholders based on the assumptions that (A) an investment of $100.00 was made on December 31, 2007, in each of the following: (i) Fulton Financial Corporation common stock; (ii) the stock of all U. S. companies traded on the NASDAQ Stock Market; (iii) the stock of all companies on the NASDAQ Bank Stock Index; (iv) the stock all companies on the Standard and Poor's 500 index (S&P 500); (v) common stock of the peer group approved by the Board of Directors on September 21, 2010 consisting of bank and financial holding companies located throughout the United States selected based on their asset size, loan distribution, revenue composition, geographic focus, business model, ownership and market capitalization and which were not a party to a merger agreement as of the end of the period and (B) all dividends were reinvested in such securities over the past five years. The graph is not indicative of future price performance.
In 2012, the Human Resources Committee of the Board of Directors made a decision to revise the comparable indices presented in the graph below. The revisions include the addition of the NASDAQ Bank Stock Index and the S&P 500 Index and the future exclusion of the complete NASDAQ Stock Market index and the Fulton Financial Peer Group index. However, the graph below includes all indices, including those that are being deleted. The reason for this revision in the Corporation's comparable indices is to provide a more transparent and generally accepted market comparison of the Corporation's stock, in the form of the NASDAQ Bank Stock Index, while also providing a better broad market stock performance index in the form of the S&P 500.

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

	Year Ending December 31					
Index	2007	2008	2009	2010	2011	2012
Fulton Financial Corporation	100.00	90.36	83.39	100.08	96.93	97.84
NASDAQ Composite	100.00	60.02	87.24	103.08	102.26	120.42
Fulton Financial Peer Group	100.00	94.50	83.94	92.48	78.35	85.06
S&P 500	100.00	63.00	79.68	91.68	93.61	108.59
NASDAQ Bank Index	100.00	78.46	65.67	74.96	67.09	79.63

Issuer Purchases of Equity Securities

Not applicable.

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

	2012	2011	2010	2009	2008
SUMMARY OF OPERATIONS					
Interest income	$647,496	$693,698	$745,373	$786,467	$867,494
Interest expense	103,168	133,538	186,627	265,513	343,346
Net interest income	544,328	560,160	558,746	520,954	524,148
Provision for credit losses	94,000	135,000	160,000	190,020	119,626
Investment securities gains (losses), net	3,026	4,561	701	1,079	(58,241)
Other income, excluding investment securities gains (losses)	207,383	183,166	181,619	172,856	157,549
Gains on sale of Global Exchange and credit card portfolio	6,215	—	—	—	13,910
Other expenses	449,506	416,476	408,325	415,537	408,787
Goodwill impairment	—	—	—	—	90,000
Income before income taxes	217,446	196,411	172,741	89,332	18,953
Income taxes	57,601	50,838	44,409	15,408	24,570
Net income (loss)	159,845	145,573	128,332	73,924	(5,617)
Preferred stock dividends and discount accretion	—	—	(16,303)	(20,169)	(463)
Net income (loss) available to common shareholders	$159,845	$145,573	$112,029	$53,755	$(6,080)
PER COMMON SHARE					
Net income (loss) (basic)	$0.80	$0.73	$0.59	$0.31	$(0.03)
Net income (loss) (diluted)	0.80	0.73	0.59	0.31	(0.03)
Cash dividends	0.30	0.20	0.12	0.12	0.60
RATIOS					
Return on average assets	0.98%	0.90%	0.78%	0.45%	(0.04)%
Return on average common shareholders' equity	7.79	7.45	6.29	3.54	(0.38)
Return on average tangible common shareholders' equity (1)	10.73	10.54	9.39	5.96	9.33
Net interest margin	3.76	3.90	3.80	3.52	3.70
Efficiency ratio	57.63	54.28	53.33	57.77	56.44
Dividend payout ratio	37.50	27.40	20.34	38.70	N/M
PERIOD-END BALANCES					
Total assets	$16,528,153	$16,370,508	$16,275,254	$16,635,635	$16,185,106
Investment securities	2,794,017	2,679,967	2,861,484	3,267,086	2,724,841
Loans, net of unearned income	12,144,604	11,968,970	11,933,307	11,972,424	12,042,620
Deposits	12,473,091	12,525,739	12,388,581	12,097,914	10,551,916
Short-term borrowings	868,399	597,033	674,077	868,940	1,762,770
Federal Home Loan Bank (FHLB) advances and long-term debt	894,253	1,040,149	1,119,450	1,540,773	1,787,797
Shareholders' equity	2,081,656	1,992,539	1,880,389	1,936,482	1,859,647
AVERAGE BALANCES					
Total assets	$16,245,305	$16,102,581	$16,426,459	$16,480,673	$15,976,871
Investment securities	2,801,554	2,680,229	2,899,925	3,137,708	2,924,340
Loans, net of unearned income	11,966,347	11,904,529	11,958,435	11,975,899	11,595,243

Deposits	12,382,819	12,447,551	12,343,844	11,637,125	10,016,528
Short-term borrowings	690,883	495,791	587,602	1,043,279	2,336,526
FHLB advances and long-term debt	933,727	1,034,475	1,326,449	1,712,630	1,822,115
Shareholders’ equity	2,050,994	1,953,396	1,977,166	1,889,561	1,609,828

N/M – Not meaningful.

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

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations
Management’s Discussion and Analysis of Financial Condition and Results of Operations (Management’s Discussion) concerns Fulton Financial Corporation (the Corporation), a financial holding company registered under the Bank Holding Company Act and incorporated under the laws of the Commonwealth of Pennsylvania in 1982, and its wholly owned subsidiaries. Management’s Discussion should be read in conjunction with the consolidated financial statements and other financial information presented in this report.

FORWARD-LOOKING STATEMENTS

The Corporation has made, and may continue to make, certain forward-looking statements with respect to its financial condition and results of operations. Do not unduly rely on forward-looking statements. Forward-looking statements can be identified by the use of words such as "may," "should," "will," "could," "estimates," "predicts," "potential," "continue," "anticipates," "believes," "plans," "expects," "future," "intends" and similar expressions which are intended to identify forward-looking statements.

These forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties, some of which are beyond the Corporation's control and ability to predict, that could cause actual results to differ materially from those expressed in the forward-looking statements. The Corporation undertakes no obligation, other than as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Many factors could affect future financial results including, without limitation:

- the impact of adverse changes in the economy and real estate markets, including protracted periods of low-growth and sluggish loan demand;
- the effect of market interest rates, particularly a continuing period of low market interest rates, and relative balances of rate-sensitive assets to rate-sensitive liabilities, on net interest margin and net interest income;
- the effect of competition on rates of deposit and loan growth and net interest margin;
- increases in non-performing assets, which may require the Corporation to increase the allowance for credit losses, charge-off loans and incur elevated collection and carrying costs related to such non-performing assets;
- non-interest income growth, including the impact of potential regulatory changes;
- investment securities gains and losses, including other-than-temporary declines in the value of securities which may result in charges to earnings;
- the level of non-interest expenses, including salaries and employee benefits expenses, operating risk losses, amortization of intangible assets and goodwill impairment;
- the impact of increased regulatory scrutiny of the banking industry;
- the increasing time and expense associated with regulatory compliance and risk management;
- the uncertainty and lack of clear regulatory guidance associated with the delay in implementing many of the regulations mandated by the Dodd-Frank Act;
- capital and liquidity strategies, including the expected impact of the capital and liquidity requirements proposed by the Basel III standards;
- operational risk, i.e. the risk of loss resulting from human error, inadequate or failed internal processes and systems, outsourcing arrangements, compliance and legal risk and external events;
- acquisition and growth strategies, including the impact of a less robust merger and acquisition environment in the banking industry and increased regulatory scrutiny; and
- the potential impact of the inability of the federal government to effectively address the so-called "fiscal cliff," budget sequestration and the federal debt ceiling.

OVERVIEW
Fulton Financial Corporation is a financial holding company comprised of six wholly owned banking subsidiaries which provide a full range of retail and commercial financial services in Pennsylvania, Delaware, Maryland, New Jersey and Virginia. The Corporation generates the majority of its revenue through net interest income, or the difference between interest earned on loans and investments and interest paid on deposits and borrowings. Growth in

net interest income is dependent upon balance sheet growth and/or maintaining or increasing the net interest margin, which is net interest income (fully taxable-equivalent, or FTE) as a percentage of average interest-earning assets. The Corporation also generates revenue through fees earned on the various services and products offered to its customers and through gains on sales of assets, such as loans, investments, lines of business or properties. Offsetting these revenue sources are provisions for credit losses on loans, non-interest expenses and income taxes.

The following table presents a summary of the Corporation’s earnings and selected performance ratios:

	2012	2011
Net income (in thousands)	$159,845	$145,573
Diluted net income per common share	$0.80	$0.73
Return on average assets	0.98 %	0.90 %
Return on average common equity	7.79 %	7.45 %
Return on average tangible common equity	10.73 %	10.54 %
Net interest margin (1)	3.76 %	3.90 %
Efficiency ratio	57.63 %	54.28 %

(1) Presented on an FTE basis, using a 35% Federal tax rate and statutory interest expense disallowances. See also the "Net Interest Income" section of Management’s Discussion.

Net income increased $14.3 million, or 9.8%, to $159.8 million in 2012. During 2012, the Corporation continued to focus on its relationship banking strategy, built upon a foundation of dedicated people and a commitment to superior customer service. This focus and general, albeit slow, economic improvement allowed the Corporation to make progress on its 2012 corporate objectives, which included the following:

- Net Income Per Share Growth - Net income per share increased $0.07, or 9.6%, in comparison to 2011. This increase was driven largely by a decrease in the provision for credit losses and an increase in mortgage banking income due to higher volumes of residential mortgage loan sales and higher spreads earned on sales, partially offset by a decrease in net interest income and higher non-interest expenses.

- Return on Average Assets Improvement - Return on average assets improves when net income increases at a higher rate than average assets. In 2012, return on average assets increased eight basis points, or 8.9%, in comparison to 2011, due to the 9.6% increase in net income, which exceeded a 0.9% increase in average assets. Average asset growth included a 4.5% increase in investment securities and a 0.5% increase in loans.

- Net Interest Margin Management - The Corporation's net interest margin decreased 14 basis points, or 3.6%, in comparison to 2011. Prior to 2012, the low interest rate environment had a positive effect on the Corporation's net interest margin as rates on interest-bearing liabilities decreased more quickly than yields on interest-earning assets, as the repricing of the loan portfolio lagged the repricing of deposits. Over time, as the low interest rate environment persisted, the downward repricing of interest bearing liabilities slowed as rates approached their implied floors. In 2012, the decrease in yields on interest-earning assets exceeded the decrease in rates in interest bearing liabilities, leading to net interest margin compression for the first time since 2009.

- Asset Quality Improvement - Overall asset quality improved in 2012 with decreases in non-performing loans and overall delinquency levels resulting in a decrease in the provision for credit losses of $41.0 million, or 30.4%.

- Prudent Capital Deployment - Total shareholders’ equity increased $89.1 million, or 4.5%, to $2.1 billion, or 12.6% of total assets, as of December 31, 2012. During 2012, the Corporation deployed capital for organic growth, increased its quarterly cash dividend and initiated a common stock repurchase program, resulting in the repurchase of 2.1 million outstanding shares of common stock through the expiration of the plan on December 31, 2012. In January 2013, the Corporation's board of directors approved a share repurchase program for the repurchase of up to eight million shares, or approximately 4.0% of its outstanding shares, through June 30, 2013.

- Leverage Market Opportunities - During 2012, the Corporation added new retail and small business relationships, contributing to strong growth in demand and savings accounts. The Corporation also expanded its branch network through the addition of six new branches. If economic conditions continue to improve, the Corporation believes that it is well positioned for growth.

The challenges facing the Corporation in 2013 will include achieving quality earning asset growth, effectively managing the net interest margin and controlling the level of non-interest expenses in light of increased compliance and regulatory demands. The Corporation anticipates higher loan growth and further improvement in asset quality if the economy continues to expand and consumer and business confidence increases. The Corporation's primary focus in 2013 will be quality earning asset growth. In keeping with this focus, the Corporation's affiliate and departmental business plans will continue to place tactical priority not only on loan growth, which will be critical in mitigating the impact of net interest margin compression, but also on growth in savings and demand deposits and non-interest income growth.

CRITICAL ACCOUNTING POLICIES

The following is a summary of those accounting policies that the Corporation considers to be most important to the presentation of its financial condition and results of operations, as they require management's most difficult judgments as a result of the need to make estimates about the effects of matters that are inherently uncertain. For a more detailed description of the Corporation's accounting policies related to each of the critical accounting estimates below see Note A, "Summary of Significant Accounting Policies," in the Notes to the Consolidated Financial Statements.

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 Corporation's allowance for credit losses includes: 1) specific allowances allocated to impaired loans evaluated for impairment under the Financial Accounting Standards Board's Accounting Standards Codification (FASB ASC) Section 310-10-35; and 2) allowances calculated for pools of loans evaluated for impairment under FASB ASC Subtopic 450-20.

Management's estimate of losses inherent in the loan portfolio is dependent on the proper application of its methodology for determining its allowance needs. The most critical judgments inherent in that methodology include:

- The ability to identify potential problem loans in a timely manner. For commercial loans, commercial mortgages and construction loans to commercial borrowers, an internal risk rating process is used. Risk ratings are initially assigned to loans by loan officers and are reviewed on a regular basis by credit administration staff. The Corporation's loan review officers provide an independent assessment of risk rating accuracy. Ratings change based on the ongoing monitoring procedures performed by credit administration staff, or if specific loan review activities identify a deterioration or an improvement in the loan. While assigning risk ratings involves judgment, the risk rating process allows management to identify riskier credits in a timely manner and to properly allocate resources to managing troubled accounts.

The Corporation does not assign internal risk ratings for residential mortgages, home equity loans, consumer loans, installment loans and lease receivables and construction loans to individuals because these portfolios consist of a larger number of loans with smaller balances. Instead, these portfolios are evaluated for risk through the monitoring of delinquency status.

- Proper collateral valuation of impaired loans evaluated for impairment under FASB ASC Section 310-10-35. Substantially all of the Corporation's impaired loans with balances greater than $1.0 million are measured based on the estimated fair value of each loan's collateral. Collateral could be in the form of real estate, in the case of impaired commercial mortgages and construction loans, or business assets, such as accounts receivable or inventory, in the case of commercial and industrial loans. Commercial and industrial loans may also be secured by real property.

For loans secured by real estate, estimated fair values are determined primarily through certified third-party appraisals, discounted to arrive at expected sale prices, net of estimated selling costs. When a real estate secured loan becomes impaired, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including: the age of the most recent appraisal; the loan-to-value ratio based on the original appraisal; the condition of the property; the Corporation's experience and knowledge of the market; the purpose of the loan; environmental factors; payment status; the strength of any guarantors; and the existence and age of other indications of value such as broker price opinions, among others. The Corporation generally obtains updated certified third-party appraisals for impaired loans secured predominately by real estate every 12 months.

When 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 the original appraisal values, as long as 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 since the original appraisal was performed. Original appraisals are typically used only when the estimated collateral value, as adjusted appropriately for age of appraisal, results in a current loan to value ratio that is lower than the Corporation's loan-to-value requirements for new loans, generally less than 70%.

- Proper measurement of allowance needs for pools of loans measured for impairment under FASB ASC Subtopic 450-20. For loan loss allocation purposes, loans are segmented into pools with similar characteristics. These pools are by general loan type, or "portfolio segments," as presented in the table under the heading, "Loans, Net of Unearned Income," within Note D, "Loans and Allowance for Credit Losses," in the Notes to Consolidated Financial Statements. 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, loans to commercial borrowers secured by residential real estate and loans to individuals secured by residential real estate. Consumer loan class segments are based on collateral types and include direct consumer installment loans and indirect automobile loans.

Commercial loans, commercial mortgages and certain construction loans are further segmented into separate pools based on internally assigned risk ratings. Residential mortgages, home equity loans, consumer loans, and lease receivables are further segmented into separate pools based on delinquency status.

A loss rate is calculated for each pool through a regression analysis based on historical losses as loans migrate through the various risk rating or delinquency categories. Estimated loss rates are based on a probability of default (PD) and a loss given default (LGD). The loss rate is adjusted to consider qualitative factors, such as economic conditions and trends.

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

For additional details related to the allowance for credit losses, see Note D, "Loans and Allowance for Credit Losses," in the Notes to Consolidated Financial Statements.

Goodwill - Goodwill recorded in connection with acquisitions is not amortized to expense, but is tested at least annually for impairment. A quantitative annual impairment test is not required if, based on a qualitative analysis, the Corporation determines that the existence of events and circumstances indicate that it is more likely than not that goodwill is not impaired. The Corporation completes its annual goodwill impairment test as of October 31st of each year. The Corporation tests for impairment by first allocating its goodwill and other assets and liabilities, as necessary, to defined reporting units. A fair value is then determined for each reporting unit. If the fair values of the reporting units exceed their book values, no write-down of the recorded goodwill is necessary. If the fair values are less than the book values, an additional valuation procedure is necessary to assess the proper carrying value of the goodwill.

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

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

For additional details related to the annual goodwill impairment test, see Note F, "Goodwill and Intangible Assets," in the Notes to Consolidated Financial Statements.

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

The Corporation must also evaluate the likelihood that deferred tax assets will be recovered through future taxable income. If any such assets are more likely than not to not be recovered, a valuation allowance must be recognized. The assessment of the carrying value of deferred tax assets is based on certain assumptions, changes in which could have a material impact on the Corporation's consolidated financial statements.

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

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

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

- Level 1 – Inputs that represent quoted prices for identical instruments in active markets.
- Level 2 – Inputs that represent quoted prices for similar instruments in active markets, or quoted prices for identical instruments in non-active markets. Also includes valuation techniques whose inputs are derived principally from observable market data other than quoted prices, such as interest rates or other market-corroborated means.
- Level 3 – Inputs that are largely unobservable, as little or no market data exists for the instrument being valued.

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

The determination of fair value for assets categorized as Level 3 items involves a great deal of subjectivity due to the use of unobservable inputs. In addition, determining when a market is no longer active and placing little or no reliance on distressed market prices requires the use of management's judgment. The Corporation's Level 3 assets include available for sale debt securities in the form of pooled trust preferred securities, certain single-issuer trust preferred securities issued by financial institutions and auction rate securities. The Corporation also categorizes impaired loans, net of allowance allocations, other real estate owned (OREO) and mortgage servicing rights as Level 3 assets measured at fair value on a non-recurring basis.

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

See Note R, "Fair Value Measurements," in the Notes to Consolidated Financial Statements for the disclosures required by FASB ASC Topic 820.

New Accounting Standard

In February 2013, the FASB issued ASC Update 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." ASC Update 2013-02 clarifies the requirements for the reporting of reclassifications out of accumulated other comprehensive income. For items reclassified out of accumulated other comprehensive income and into net income in their entirety, companies must disclose the effect of the reclassification on each affected statement of income line item. For all other reclassifications, companies must cross reference to other required accounting principles generally accepted in the United States (U.S. GAAP) disclosures. This standards update is effective for the first interim period beginning on or after December 15, 2012. For the Corporation, this standards update is effective in connection with its March 31, 2013 interim filing on Form 10-Q. The adoption of ASC Update 2013-02 will not materially impact the Corporation's financial statements.

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the most significant component of the Corporation’s net income. The Corporation manages the risk associated with changes in interest rates through the techniques described within Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

The following table provides a comparative average balance sheet and net interest income analysis for 2012 compared to 2011 and 2010. Interest income and yields are presented on an FTE basis, using a 35% federal tax rate and statutory interest expense disallowances. The discussion following this table is based on these tax-equivalent amounts.

	2012			2011			2010		
	Average Balance	Interest (1)	Yield/ Rate	Average Balance	Interest (1)	Yield/ Rate	Average Balance	Interest (1)	Yield/ Rate
	(dollars in thousands)								
ASSETS									
Interest-earning assets:									
Loans, net of unearned income (2)	$11,966,347	$575,534	4.81%	$11,904,529	$605,671	5.09%	$11,958,435	$637,438	5.33%
Taxable investment securities (3)	2,401,343	67,349	2.80	2,223,376	80,184	3.61	2,403,206	96,237	4.00
Tax-exempt investment securities (3)	287,763	15,942	5.54	330,087	18,521	5.61	357,427	20,513	5.74
Equity securities (3)	112,448	3,291	2.93	126,766	3,078	2.43	139,292	3,103	2.23
Total investment securities	2,801,554	86,582	3.09	2,680,229	101,783	3.80	2,899,925	119,853	4.13
Loans held for sale	54,351	2,064	3.80	43,470	1,958	4.50	69,157	3,088	4.47
Other interest-earning assets	130,946	178	0.14	160,664	358	0.22	192,888	505	0.26
Total interest-earning assets	14,953,198	664,358	4.45	14,788,892	709,770	4.80	15,120,405	760,884	5.04
Noninterest-earning assets:									
Cash and due from banks	234,880			274,527			268,615		
Premises and equipment	219,236			207,081			204,316		
Other assets (3)	1,088,151			1,108,359			1,114,678		
Less: Allowance for loan losses	(250,160)			(276,278)			(281,555)		
Total Assets	$16,245,305			$16,102,581			$16,426,459		
LIABILITIES AND EQUITY									
Interest-bearing liabilities:									
Demand deposits	$2,560,831	$4,187	0.16%	$2,391,043	$5,312	0.22%	$2,099,026	$7,341	0.35%
Savings deposits	3,347,606	6,002	0.18	3,359,109	11,536	0.34	3,124,157	19,889	0.63

Time deposits	3,717,556	46,706	1.26	4,297,106	66,235	1.54	5,016,645	95,129	1.90
Total interest-bearing deposits	9,625,993	56,895	0.59	10,047,258	83,083	0.83	10,239,828	122,359	1.19
Short-term borrowings	690,883	1,068	0.15	495,791	746	0.15	587,602	1,455	0.25
Long-term debt	933,727	45,205	4.84	1,034,475	49,709	4.81	1,326,449	62,813	4.74
Total interest-bearing liabilities	11,250,603	103,168	0.92	11,577,524	133,538	1.15	12,153,879	186,627	1.54
Noninterest-bearing liabilities:									
Demand deposits	2,756,826			2,400,293			2,104,016		
Other	186,882			171,368			191,398		
Total Liabilities	14,194,311			14,149,185			14,449,293		
Shareholders’ equity	2,050,994			1,953,396			1,977,166		
Total Liabilities and Shareholders' Equity	$16,245,305			$16,102,581			$16,426,459		
Net interest income/net interest margin (FTE)		561,190	3.76%		576,232	3.90%		574,257	3.80%
Tax equivalent adjustment		(16,862)			(16,072)			(15,511)	
Net interest income		$544,328			$560,160			$558,746	

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

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

	2012 vs. 2011 Increase (decrease) due to change in			2011 vs. 2010 Increase (decrease) due to change in		
	Volume	Rate	Net	Volume	Rate	Net
	(in thousands)					
Interest income on:						
Loans and leases	$3,130	$(33,267)	$(30,137)	$(2,861)	$(28,906)	$(31,767)
Taxable investment securities	6,040	(18,875)	(12,835)	(6,894)	(9,159)	(16,053)
Tax-exempt investment securities	(2,348)	(231)	(2,579)	(1,542)	(450)	(1,992)
Equity securities	(373)	586	213	(292)	267	(25)
Loans held for sale	443	(337)	106	(1,157)	27	(1,130)
Other interest-earning assets	(58)	(122)	(180)	(78)	(69)	(147)
Total interest-earning assets	$6,834	$(52,246)	$(45,412)	$(12,824)	$(38,290)	$(51,114)
Interest expense on:						
Demand deposits	$356	$(1,481)	$(1,125)	$918	$(2,947)	$(2,029)
Savings deposits	(40)	(5,494)	(5,534)	1,332	(9,685)	(8,353)
Time deposits	(8,236)	(11,293)	(19,529)	(12,536)	(16,358)	(28,894)
Short-term borrowings	301	21	322	(202)	(507)	(709)
Long-term debt	(4,875)	371	(4,504)	(14,017)	913	(13,104)
Total interest-bearing liabilities	$(12,494)	$(17,876)	$(30,370)	$(24,505)	$(28,584)	$(53,089)

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

Comparison of 2012 to 2011

FTE net interest income decreased $15.0 million, or 2.6%, to $561.2 million in 2012. Net interest margin decreased 14 basis points, or 3.6%, from 3.90% in 2011 to 3.76% in 2012.

FTE interest income decreased $45.4 million, or 6.4%. A 35 basis point, or 7.3%, decrease in yields on interest-earning assets resulted in a $52.2 million decrease in interest income, while a $164.3 million, or 1.1%, increase in average interest-earning assets resulted in a $6.8 million increase in interest income.

The increase in average interest-earning assets was primarily due to a $121.3 million, or 4.5%, increase in average investments. The average yield on investment securities decreased 71 basis points, or 18.7%, from 3.80% in 2011 to 3.09% in 2012, as the reinvestment of cash flows and purchases of mortgage-backed securities and collateralized mortgage obligations were at yields that were lower than the overall portfolio yield. A $6.1 million, or 101.7%, increase in net premium amortization, due primarily to higher prepayments on mortgage-backed securities and collateralized mortgage obligations, contributed 21 basis points to the decrease in average investment yields and four basis points to the decrease in net interest margin.

Average loans increased $61.8 million, or 0.5%, due to a slight increase in demand for commercial mortgages and the Corporation's decision to retain certain residential mortgages in portfolio instead of selling them to investors.

The following table summarizes the changes in average loans by type:

	2012	2011	Increase (decrease) $	%
	(dollars in thousands)			
Real estate - commercial mortgage	$4,619,587	$4,458,205	$161,382	3.6 %
Commercial - industrial, financial and agricultural	3,551,056	3,681,321	(130,265)	(3.5)
Real estate - home equity	1,605,088	1,627,308	(22,220)	(1.4)
Real estate - residential mortgage	1,185,516	1,036,474	149,042	14.4
Real estate - construction	620,166	700,071	(79,905)	(11.4)
Consumer	307,154	332,613	(25,459)	(7.7)
Leasing and other	77,780	68,537	9,243	13.5
Total	$11,966,347	$11,904,529	$61,818	0.5 %

The average yield on loans during 2012 of 4.81% represented a 28 basis point, or 5.5%, decrease in comparison to 2011, despite the average prime rate remaining at 3.25% for both 2012 and 2011. The decrease in average yields on loans was attributable to increased refinancing activity, repayments of higher-yielding loans and new loan production at rates lower than the overall portfolio yield.

Interest expense decreased $30.4 million, or 22.7%, to $103.2 million in 2012 from $133.5 million in 2011. Interest expense decreased $17.9 million due to a 23 basis point, or 20.0%, decrease in the average cost of total interest-bearing liabilities. Interest expense decreased an additional $12.5 million as a result of a $326.9 million, or 2.8%, decrease in average interest-bearing liabilities.

Average total deposits decreased $64.7 million, or 0.5%, due to a decrease in certificates of deposit being partially offset by an increase in core demand and savings accounts. The following table summarizes the changes in average deposits, by type:

	2012	2011	Increase (decrease) $	%
	(dollars in thousands)			
Noninterest-bearing demand	$2,756,826	$2,400,293	$356,533	14.9 %
Interest-bearing demand	2,560,831	2,391,043	169,788	7.1
Savings	3,347,606	3,359,109	(11,503)	(0.3)
Total demand and savings	8,665,263	8,150,445	514,818	6.3
Time deposits	3,717,556	4,297,106	(579,550)	(13.5)
Total deposits	$12,382,819	$12,447,551	$(64,732)	(0.5)%

The average cost of interest-bearing deposits decreased 24 basis points, or 28.9%, from 0.83% in 2011 to 0.59% in 2012 due primarily to the repricing of certificates of deposit to lower rates and, to a lesser degree, a reduction in average rates paid on interest-bearing demand and savings deposits. Excluding early redemptions, $3.0 billion of time deposits matured during 2012 at a weighted average rate of 0.96%, while $2.6 billion of time deposits were issued at a weighted average rate of 0.41%.

Average short-term borrowings increased $195.1 million, or 39.3%, due to an increase in Federal funds purchased. Average long-term debt decreased $100.7 million, or 9.7%, due to maturities of Federal Home Loan Bank (FHLB) advances, which were not replaced with new long-term borrowings.

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

	2012	2011	Increase (Decrease) $	%
	(dollars in thousands)			
Short-term borrowings:				
Customer repurchase agreements	$206,842	$208,144	$(1,302)	(0.6)%
Customer short-term promissory notes	138,632	174,624	(35,992)	(20.6)
Total short-term customer funding	345,474	382,768	(37,294)	(9.7)
Federal funds purchased	335,205	113,023	222,182	196.6
Other short-term borrowings	10,204	—	10,204	100.0
Total short-term borrowings	690,883	495,791	195,092	39.3
Long-term debt:				
FHLB Advances	563,905	651,268	(87,363)	(13.4)
Other long-term debt	369,822	383,207	(13,385)	(3.5)
Total long-term debt	933,727	1,034,475	(100,748)	(9.7)
Total	$1,624,610	$1,530,266	$94,344	6.2%

The average cost of short-term borrowings was 0.15% in both 2012 and 2011, while the average cost of long-term debt increased slightly, to 4.84% in 2012 from 4.81% in 2011. In December 2012, the Corporation prepaid approximately $20 million of FHLB advances, with a weighted average interest rate of 4.38% and maturing in January 2017. The Corporation incurred a $3.0 million penalty in connection with prepaying these FHLB advances, recorded as a component of other non-interest expense. The 2013 interest expense savings from the prepayment of the FHLB advances is expected to be approximately $825,000, assuming replacement with overnight borrowings.

Comparison of 2011 to 2010

FTE net interest income increased $2.0 million, or 0.3%, to $576.2 million in 2011. Net interest margin increased 10 basis points, or 2.6%, from 3.80% in 2010 to 3.90% in 2011.

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

The following table summarizes the changes in average loans by type:

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

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

Average investments decreased $219.7 million, or 7.6%, due largely to maturities or calls of collateralized mortgage obligations and state and municipal securities and redemptions of student loan auction rate securities. During 2011, the proceeds from the maturities and sales of securities were not fully reinvested into the portfolio because current rates on many investment options were not attractive.

The average yield on investments decreased 33 basis points, or 8.0%, from 4.13% in 2010 to 3.80% in 2011, as the reinvestment of cash flows and purchases of taxable investment securities were at yields that were lower than the overall portfolio yield.

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

Average deposits increased $103.7 million, or 0.8%, due to increases in core demand and savings accounts being partially offset by a decrease in time deposits. The following table summarizes the changes in average deposits, by type:

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

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

Average short-term borrowings decreased $91.8 million, or 15.6%, primarily due to a decrease in short-term customer funding as customers transferred funds from the cash management program to deposits due to the low interest rate environment. Average long-term debt decreased $292.0 million, or 22.0%, due to maturities of FHLB advances, which were generally not replaced with new advances.The following table summarizes the decreases in average borrowings, by type:

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

Provision for Credit Losses

The provision for credit losses was $94.0 million for 2012, a decrease of $41.0 million, or 30.4%, in comparison to 2011. The provision for credit losses for 2011 decreased $25.0 million, or 15.6%, in comparison to 2010.

The provision for credit losses is recognized as an expense in the consolidated statements of income and is the amount necessary to adjust the allowance for credit losses to its appropriate balance, as determined through the Corporation's allowance methodology. The Corporation determines the appropriate level of the allowance for credit losses based on many quantitative and qualitative factors, including, but not limited to: the size and composition of the loan portfolio, changes in risk ratings, changes in collateral values, delinquency levels, historical losses and economic conditions. See further discussion of the Corporation's allowance methodology under the heading "Critical Accounting Policies." For details related to the Corporation's allowance and provision for credit losses, see the "Financial Condition" section of Management's Discussion under the heading "Allowance for Credit Losses."

Non-Interest Income and Expense
Comparison of 2012 to 2011
Non-Interest Income
The following table presents the components of non-interest income for the past two years:

	2012	2011	Increase (decrease) $	%
	(dollars in thousands)			
Overdraft fees	$33,329	$32,062	$1,267	4.0 %
Cash management fees	11,004	10,590	414	3.9
Other	17,169	15,426	1,743	11.3
Service charges on deposit accounts				