Organic Growth
Fulton Financial Corporation Annual Report 2005

What makes the sapling flourish? Somewhere deep in its grain flows the instinct to reach with root and limb for what it needs to grow. Following that instinct – each in its own way – trees grow together to create a rich, thriving forest.

Fulton Financial Corporation seeks out that natural inclination toward growth. We find it in the people who are a part of our organization. And in each of the independent community banks that have joined our family.

Respect for organic wisdom – knowing how best to grow in one's own environment – shapes our corporate philosophy. And our unique business model, grounded in a deep regard for the ability of the individual, has been the foundation for our history of strong, consistent growth.

By valuing the wisdom of our people and of our local affiliate banks, we increase our collective wisdom, thus leading to collective success for our customers, our employees, and the communities we serve.

The result is a thriving environment of growth … which yields consistent returns for our shareholders.

Trees He Has Planted.

Planting a tree is the ultimate act of optimism… of generosity… of vision for the future.

Rufus A. Fulton, Jr., retired chairman and CEO, understands that kind of optimism and vision. But the trees planted on his farm over the years are just one sign of the man's dedication to the future.

Rufus has planted and cultivated much since joining Fulton National Bank in 1966. Beginning his Fulton career as the bank's first management trainee, Rufus has held positions from trust administrator to trust officer, vice president to senior vice president, president of Fulton Financial Corporation to CEO, and ultimately, chairman.

Along the way, he's seen the organization grow from one bank in Pennsylvania to fifteen banks in five states; assets have grown from $86.4 million to $13.7 billion following our recent acquisition of Columbia Bancorp; and shareholders have increased from 2,400 to 51,000. When Rufus became president of the company in 1987, net income was $15.1 million; during his tenure, it has increased more than tenfold.

His philosophy for successful growth relies on a balance between the internal and the external. According to Rufus, for a bank to be a good fit with the Corporation, it must be located in an area that's growing. It must have high asset quality. But most importantly, a bank must have employees who have the same values as the employees at Fulton Financial. "You can teach people to do banking," he says, "but it's much harder to teach them how to treat co-workers and customers well if they don't already know how."

Since his retirement, Rufus has left behind a legacy of lessons shared: about banking, and about caring for everyone involved – from customer and co-worker to shareholder and community. He also leaves in place an experienced, dedicated organization of people who have grown under his leadership.

"It is often said that the mark of a leader toward career's end is not so much what he did but what he left his people capable of doing.

I believe that my mark, if I leave one, will be the leadership that is now in place to take Fulton Financial Corporation to greater heights for many years to come."

In describing Scott Smith, the company's new chairman, CEO and president, Rufus says, "I have worked with Scott for more than 25 years. As a member of the FFC board of directors and as a shareholder, I have complete confidence in Scott as he steps up to head our company."

As all who know him will attest, Rufus would rather talk about the exciting future of the company than dwell on his personal achievements – just the kind of perspective you'd expect from one who plants trees. What's rewarding isn't the praise; but rather, the knowledge that the seeds he planted will grow for a long, long time.

Together, we grow.

LETTER TO OUR SHAREHOLDERS

Whether you're a longtime shareholder or relatively new to the Fulton Financial Corporation family, I hope you've been pleased by the consistent, reliable performance of our unique business model. Engineered for enduring growth and attractive returns, our way of doing business has yielded another year of solid achievement.

In 2005, our diluted net income per share increased 6.1% to $1.05 on total net income of $166.1 million. These results represent a return on average assets of 1.41% and a return on average tangible equity of 20.28%. The Corporation's total capital was $1.3 billion at December 31, 2005, representing a book value per share of $8.17 and a tangible book value per share of $5.32.

After two extraordinarily strong years of total shareholder returns in 2003 and 2004, Fulton Financial Corporation's stock closed the year at $17.60 per share, compared to the 2004 close of $18.65, which is adjusted for the five-for-four stock split paid in June 2004. Long-term shareholders have realized an attractive return on their investment in Fulton Financial. For example, if you owned 100 shares of Fulton Financial Corporation common stock on June 30, 1982, when the Corporation was formed, your investment was $1,750. By doing nothing more than holding onto those shares, as of December 31, 2005, you would have owned 2,056 shares, valued at approximately $36,000, for a compounded annual rate of return of 14% over the 24-year period. If you had taken advantage of our dividend reinvestment plan, that same investment of $1,750 in 1982 would have had a 2005 year-end market value of approximately $82,000, representing 4,641 shares, for a compounded annual rate of return of 18%.

We currently have roughly $13.7 billion in assets and a market capitalization of approximately $2.9 billion, which makes us the second largest commercial bank headquartered in the Third Federal Reserve District. We currently operate 254 branches located in Pennsylvania, New Jersey, Delaware, Maryland and Virginia.

Our performance this year is reflected in our financial highlights, as well as in some significant additional accomplishments:

- Somerville, New Jersey-based SVB Financial Services, Inc., along with its sole banking subsidiary, Somerset Valley Bank, joined Fulton Financial Corporation in July. This acquisition has reinforced our presence in central New Jersey with 12 community banking offices in Somerset, Hunterdon, and Middlesex counties ... while also helping us further enhance banking convenience for our existing New Jersey customers. With the 2004 addition of First Washington State Bank and this year's acquisition of Somerset Valley, we now serve 14 of New Jersey's 21 counties, providing more than 65 community banking locations in those markets.

- Columbia Bancorp, based in Columbia, Maryland, signed a definitive agreement in July to join Fulton Financial Corporation. This acquisition, completed on February 1, 2006, was Fulton Financial's third acquisition in Maryland, and our largest acquisition to date. Columbia Bancorp's sole banking subsidiary, The Columbia Bank establishes a Fulton Financial presence in Howard, Montgomery, Prince George's and Baltimore counties, as well as in Baltimore City with 20 full-service community banking offices and five retirement community banking offices.

Another significant event was the retirement of our chairman and CEO, Rufus A. Fulton, Jr. We'll miss him, his dedication, and his genuine care for the people of the corporation and the community. But he's been generous with his legacy – the wisdom, the values, and the high standards which have energized and will continue to fuel the growth of our organization.

Rufus was the first graduate of our Management Training Program, and has been an excellent example of how our Corporation attracts and retains people of talent and dedication. Our organization is fortunate to have formed our new senior management team with several experienced long-term Fulton employees: Charles J. Nugent, who continues to serve as senior executive vice president and chief financial officer; Richard J. Ashby, Jr., senior executive vice president and head of the Corporation's new Community Banking Group; James E. Shreiner, senior executive vice president and senior administrative services officer; Craig H. Hill, senior executive vice president and head of human resources; and E. Philip Wenger, senior executive vice president and chairman and CEO of Fulton Bank, the Corporation's largest banking affiliate.

It's exciting to have such collective experience on our senior management team. I've worked with each of these colleagues for many years, and I have experienced firsthand their dedication to our customers, our employees, our shareholders, and our communities. Together, we look forward to building on the foundation that Rufus has set, and I'm confident that we're poised for strong, consistent growth as we meet the challenges and opportunities of the future … as always, keeping our keen focus on satisfying customers, retaining valuable employees, and delivering consistent growth for our shareholders.

R. Scott Smith, Jr.
Chairman, Chief Executive Officer, and President

Strong Roots. Solid Growth.

Dan Schantz is a man of humble roots. When he and his wife, Mildred, purchased a small farm outside of Allentown, Pennsylvania, in 1957, he was looking simply to pursue his love of horticulture. But his 40 years of dedication, perseverance, and solid commitment to customer service grew his farm from a one-man operation into what has become a $25 million flower, specialty plant, and holiday bulb grower and distributor. Today, Dan Schantz Farm and Greenhouses supplies some of the largest retail stores in the country.

Dan is a wise businessman who has always believed in the power of community. But as his profits continued to climb, fewer and fewer local banks could provide the level of support that his multi-million dollar corporation needed to thrive. As Lisa Myers, Dan's company controller explains, "We were happy with our previous local bank, but we needed a certain amount of financing, and they were just tapped out."

So, in the process of a company change and looking to refinance, Dan joined Lafayette Ambassador Bank in 2000. As Lisa says, "We liked Lafayette Ambassador because of their customer service. But they were also able to make us the most comprehensive offer because of their affiliation with Fulton Financial Corporation. They promised to take care of us, and they have."

As a long-time agricultural lender, the Corporation has an intimate understanding of the local farming community, so it's easy to relate to Dan's personal interests and goals.

Dan Schantz, customer of Lafayette Ambassador Bank, inspecting his poinsettia crop at the Dan Schantz Farm and Greenhouses near Allentown, Pennsylvania.

And, backed by Fulton Financial Corporation, the largest bank agricultural lender in the northeastern United States, Lafayette Ambassador can supply Dan with significant buying power and large cash management opportunities. As John Ditbrenner, Dan's personal relationship manager at Lafayette Ambassador Bank recalls, "Dan's been doing business with us for about five years now. We make our lending decisions much more expediently than a larger bank could, but we also provide him a lot more financial assistance than most local banks could."

In addition to a company retirement plan, cash management opportunities, and access to immediate credit, Fulton affiliation has also broadened Dan's banking power geographically. As Lisa explains, "We often conduct business in Reading, Pennsylvania, which has no Lafayette Ambassador branches. But, because there's another Fulton affiliate located there, we can still do our banking through them."

As Lisa can testify, this unique model of banking has been integral to the success of Dan's business. "We conduct a lot of banking transactions each week. It's nice to be able to do everything locally, but still have constant access to fully integrated services – like investment management, cash management, and brokerage services."

And it's through that combination of services that Dan has managed to remain a community businessman – even as he's evolved from local grower to national distributor, and from hometown farmer to "Pennsylvania Master Farmer." As John Ditbrenner will tell anyone, "We can meet all of Dan's business objectives through our relationship with Fulton Financial. But we meet Dan's most important needs simply through our close relationship with him and our understanding of his relationship to the community."

An expanding circle of success.

It starts with our people – people who arrive here already motivated to grow and achieve. We invest in them through support, mentoring, and training... as well as in the benefits and development opportunities they need to succeed in a well-rounded, well-balanced way.

Treated with value and respect, they pass those same qualities along to each other and to our customers. The result is a community of highly skilled, close-knit and highly loyal co-workers, an impressive employee retention rate, and highly satisfied customers – customers who enable us to continue investing in our people.

People like Beth Bowers. She began her Fulton career in the company's Management Training Program in 1979. She's now senior vice president of Loan Documentation for Fulton Bank. "From the time I arrived, senior management set a good example," she says. "They demonstrated a genuine desire to recognize the worth of employees." Beth says it is this corporate culture, combined with the bank's commitment to the surrounding community, that has proven to be a winning combination – for employees, customers, and shareholders.

Carolyn Pennabecker is executive vice president of the Wealth Management Division of Fulton Financial Advisors. But she didn't start there; she originally joined Fulton Bank as a personal trust administrative assistant, and also completed the Management Training Program. "Each time I was ready for a new challenge," she says, "company growth presented a new opportunity."

Fulton Bank president and chief operating officer Craig Roda also began as a Fulton Bank management trainee in 1979. "I knew from day one I'd found a home," he says. "Whether it's shareholders, customers, or employees, there's a culture here of putting people first." Once on the receiving end of mentoring within the Fulton organization, Craig is now able to continue the cycle, perpetuating the values which have fueled the company's growth. "The people really do make the difference here," he says. "I've seen and experienced just how true that is."

"It's a great place to work," says Phil Wenger. That could explain his longevity at Fulton; Phil arrived in 1979, when he too joined the Management Training Program. Of the program, Phil says it's what helps to create and retain such a highly-skilled, multi-dimensional team of employees. "It's a great way for newcomers to discover what they can do here, to experience a lot of different aspects of the business, and to see what Fulton Financial is all about." Phil would know – he's now chairman and CEO of Fulton Bank and senior executive vice president for Fulton Financial Corporation.

Four graduates of the Management Training Program (from left to right): Phil Wenger, Beth Bowers, Carolyn Pennabecker and Craig Roda.

Beth, Carolyn, Craig, Phil and many other graduates of the Management Training Program have grown into seasoned officer-level employees; these one-time trainees and others like them now provide leadership to their company as well as to the co-workers following in their footsteps.

"It's a dynamic, growing organization," Phil says, "and that growth yields many career opportunities for many folks."

And thus, our circle of success continues to grow.

Sowing Success.

Since its founding in 1990, Skylands Community Bank has been known for relationship-style banking. With a solid mission, strong team, and a strong reputation for small business banking, the bank offered customers some of the best service in its community. But joining Fulton Financial Corporation in 2000 enabled Skylands to offer some of the best service in the state of New Jersey.

Fulton Financial affiliation gave Skylands the means to offer a higher lending capacity and new services like investment management and cash management. As it added these new amenities to its unique personality, the bank flourished.

Yet, Skylands' strong growth in market share, loans, deposits, and customer satisfaction hasn't altered its accessible image or quality local reputation. In its seamless union with Fulton Financial, Skylands enjoys the continued loyalty of its existing customers while attracting scores of new ones. "Unlike many mergers, ours was very effective – with no disruption," says Mike Halpin, president and CEO of Skylands Community Bank.

In gaining access to Fulton Financial's considerable assets and services, Skylands retained its local management and decision-making authority. "One of the best things about joining Fulton Financial was that just about everyone was able to keep their jobs – which is a rarity," says Mike.

Mike Halpin, president and CEO of Skylands Bank, holding a picture of his management team.

And it was important to Mike to hold on to that team. Because he, like every good leader, sees his hardworking employees as his biggest asset. "At Skylands Community Bank, we make it a point to value everyone's contributions equally. All of our employees feel genuinely respected and needed," states Mike.

As they have leveraged their founding philosophies with the financial strength of Fulton Financial Corporation, the Skylands team has blossomed. They can now add greater customer borrowing power and broader investment opportunities to their repertoire of services. "Everyone agrees that Fulton Financial plays a critical role in our success," according to Mike. "That culture of respect is apparent to our customers, too. And that makes everyone happy."

Skylands Community Bank is an example of how Fulton Financial's affiliate banks can maintain autonomy while tapping into the holding company's resources and enjoying inspiring growth. Mike Halpin agrees. "This is a great affiliation. We are living proof that the Fulton Financial way of doing business is mutually beneficial – for the holding company and its shareholders, and for the affiliate bank and its customers."

Fulton Financial Corporation Senior Management

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Chairman, Chief Executive Officer and President

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Senior Executive Vice President/ Community Banking Group

Craig H. Hill
Senior Executive Vice President/ Human Resources

Charles J. Nugent
Senior Executive Vice President/ Chief Financial Officer

James E. Shreiner
Senior Executive Vice President/ Senior Administrative Services Officer

E. Philip Wenger
Senior Executive Vice President/ Chairman and CEO of Fulton Bank

Seated: R. Scott Smith, Jr.
Standing, from left: James E. Shreiner, E. Philip Wenger, Charles J. Nugent, Craig H. Hill, Richard J. Ashby, Jr.

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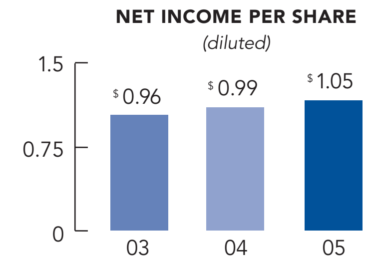
FINANCIAL HIGHLIGHTS

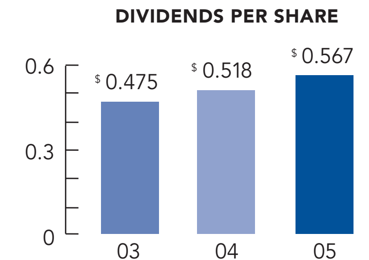
PER-SHARE DATA	2005	2004	2003	PERCENT CHANGE 2005/2004	2004/2003
Net income (diluted)	$1.05	$0.99	$0.96	6%	3%
Cash dividends	0.567	0.518	0.475	9%	9%
Shareholders' equity	8.17	7.92	6.67	3%	19%

AT YEAR END *(Dollars in thousands)*	2005	2004	2003	2005/2004	2004/2003
Total assets	$12,402,000	$11,160,000	$9,769,000	11%	14%
Loans, net of unearned	8,425,000	7,534,000	6,140,000	12%	23%
Deposits	8,805,000	7,896,000	6,752,000	12%	17%
Shareholders' equity	1,283,000	1,244,000	948,000	3%	31%
Shares outstanding	157,017,000				
Number of shareholders	51,000				
Number of employees	4,379				

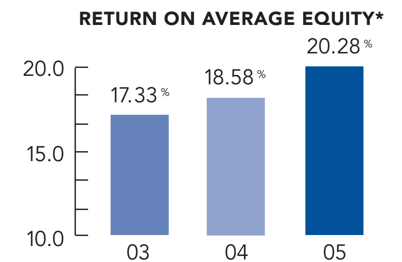
NET INCOME PER SHARE
(diluted)



DIVIDENDS PER SHARE



RETURN ON AVERAGE EQUITY*



*Net income, as adjusted for intangible amortization (net of tax) divided by average shareholders' equity, net of goodwill and intangible assets.

Investor Information

Stock Listing
Common shares of Fulton Financial Corporation are traded under the symbol "FULT" and are listed in the National Market System of NASDAQ.

Dividend Calendar
Dividends on Fulton Financial Corporation's common stock are customarily payable on or about the 15th of January, April, July and October.

Dividend Reinvestment Plan and Direct Deposit of Cash Dividends
Fulton Financial Corporation offers its shareholders the convenience of a Dividend Reinvestment and Stock Purchase Plan, and direct deposit of cash dividends.

Holders of stock may have their quarterly dividends automatically reinvested in additional shares of the Corporation's common stock by utilizing the Dividend Reinvestment Plan.

Shareholders participating in the Plan may also make voluntary cash contributions not to exceed $5,000 per month.

In addition, shareholders also have the option of having their cash dividends sent directly to their financial institution for deposit into their checking or savings account.

Shareholders may receive information on either the Dividend Reinvestment Plan and Stock Purchase Plan or direct deposit of cash dividends by writing to:

Stock Transfer Department
Fulton Financial Advisors, N.A.
P.O. Box 3215
Lancaster, PA 17604-3215

or calling: (717) 291-2546 or 1-800-626-0255.

Form 10-K
A copy of the Corporation's Annual Report to the Securities and Exchange Commission, Form 10-K, can be viewed on the Corporation's website at www.fult.com. In addition, copies may be obtained without charge to shareholders by writing to:

Corporate Secretary
Fulton Financial Corporation
P.O. Box 4887
Lancaster, PA 17604-4887

The Annual Meeting and Luncheon of Shareholders of Fulton Financial Corporation will be held on Tuesday, May 2, 2006, at noon in the Great American Hall of the Hershey Lodge and Convention Center, West Chocolate Avenue and University Drive, Hershey, PA. Please note that any shareholder who would like to attend MUST HAVE A RESERVATION. You may let us know that you will attend by returning the Reservation Form included in your proxy mailing.

Your reservation will help ensure that we have adequate seating for all shareholders who plan to join us that day.

Bank Subsidiaries

Fulton Bank

Lebanon Valley Farmers Bank

Swineford National Bank

Lafayette Ambassador Bank

FNB Bank, N.A.

Hagerstown Trust

Delaware National Bank

The Bank

The Peoples Bank of Elkton

Skylands Community Bank

Premier Bank

Resource Bank

First Washington State Bank

Somerset Valley Bank

The Columbia Bank

Residential lending offered through Fulton Mortgage Company and Resource Mortgage

Financial Services Affiliates

Fulton Financial Advisors, N.A.

Deardon, Maguire, Weaver, and Barrett, LLC

Fulton Insurance Services Group, Inc.

Fulton Financial Corporation   One Penn Square   P.O. Box 4887   Lancaster, PA 17604   1.800.FULTON.4   www.fult.com

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5-YEAR CONSOLIDATED SUMMARY OF FINANCIAL RESULTS
(dollars in thousands, except per-share data)

	For the Year				
	2005	2004	2003	2002	2001
SUMMARY OF INCOME					
Interest income	**$ 625,797**	$ 493,643	$ 435,531	$ 469,288	$ 518,680
Interest expense	**213,219**	135,994	131,094	158,219	227,962
Net interest income	**412,578**	357,649	304,437	311,069	290,718
Provision for loan losses	**3,120**	4,717	9,705	11,900	14,585
Other income	**144,268**	138,864	134,370	114,012	102,057
Other expenses	**316,291**	277,515	233,651	226,046	220,292
Income before income taxes	**237,435**	214,281	195,451	187,135	157,898
Income taxes	**71,361**	64,673	59,084	56,181	46,136
Net income	**$ 166,074**	$ 149,608	$ 136,367	$ 130,954	$ 111,762
PER-SHARE DATA (1)					
Net income (basic)	**$ 1.06**	$ 1.00	$ 0.97	$ 0.93	$ 0.79
Net income (diluted)	**1.05**	0.99	0.96	0.92	0.78
Cash dividends	**0.567**	0.518	0.475	0.425	0.385
RATIOS					
Return on average assets	**1.41%**	1.45%	1.55%	1.66%	1.49%
Return on average equity	**13.24**	13.98	15.23	15.61	14.33
Return on average tangible equity (2)	**20.28**	18.58	17.33	17.25	15.97
Net interest margin	**3.93**	3.83	3.82	4.35	4.27
Efficiency ratio	**55.50**	55.90	54.00	52.70	55.50
Average equity to average assets	**10.70**	10.30	10.20	10.60	10.40
Dividend payout ratio	**54.00**	52.30	49.50	46.20	49.40
PERIOD-END BALANCES					
Total assets	**$12,401,555**	$11,160,148	$ 9,768,669	$ 8,388,915	$ 7,771,598
Loans, net of unearned income	**8,424,728**	7,533,915	6,140,200	5,295,459	5,373,020
Deposits	**8,804,839**	7,895,524	6,751,783	6,245,528	5,986,804
Federal Home Loan Bank advances and long-term debt	**860,345**	684,236	568,730	535,555	456,802
Shareholders' equity	**1,282,971**	1,244,087	948,317	864,879	812,341
AVERAGE BALANCES					
Total assets	**$11,779,096**	$10,344,768	$ 8,803,285	$ 7,901,398	$ 7,520,763
Loans, net of unearned income	**7,981,604**	6,857,386	5,564,806	5,381,950	5,341,497
Deposits	**8,364,435**	7,285,134	6,505,371	6,052,667	5,771,089
Federal Home Loan Bank advances and long-term debt	**837,305**	637,654	566,437	476,415	500,162
Shareholders' equity	**1,254,476**	1,069,904	895,616	839,111	779,706

(1) Adjusted for stock dividends and stock splits.
(2) Net income, as adjusted for intangible amortization (net of tax), divided by average shareholders' equity, net of goodwill and intangible assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

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. This discussion and analysis should be read in conjunction with the consolidated financial statements and other financial information presented in this report.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

The Corporation has made, and may continue to make, certain forward-looking statements with respect to acquisition and growth strategies, market risk, the effect of competition on net interest margin and net interest income, investment strategy and income growth, investment securities gains, other-than-temporary impairment of investment securities, deposit and loan growth, asset quality, balances of risk-sensitive assets to risk-sensitive liabilities, employee benefits and other expenses, amortization of intangible assets, goodwill impairment, capital and liquidity strategies and other financial and business matters for future periods. The Corporation cautions that these forward-looking statements are subject to various assumptions, risks and uncertainties. Because of the possibility that the underlying assumptions may change, actual results could differ materially from these forward-looking statements.

In addition to the factors identified herein, the following risk factors could cause actual results to differ materially from such forward-looking statements:

- Changes in interest rates may have an adverse effect on the Corporation's profitability.
- Changes in economic conditions and the composition of the Corporation's loan portfolios could lead to higher loan charge-offs or an increase in Fulton's allowance for loan losses and may reduce the Corporation's income.
- Fluctuations in the value of the Corporation's equity portfolio, or assets under management by the Corporation's trust and investment management services, could have a material impact on the Corporation's results of operations.
- If the Corporation is unable to acquire additional banks on favorable terms or if it fails to successfully integrate or improve the operations of acquired banks, the Corporation may be unable to execute its growth strategies.
- 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 profitability.
- The competition the Corporation faces is increasing and may reduce the Corporation's customer base and negatively impact the Corporation's results of operations.
- The supervision and regulation by various regulatory authorities to which the Corporation is subject can be a competitive disadvantage.

The Corporation's forward-looking statements are relevant only as of the date on which such statements are made. By making any forward-looking statements, the Corporation assumes no duty to update them to reflect new, changing or unanticipated events or circumstances.

OVERVIEW

As a financial institution with a focus on traditional banking activities, the Corporation generates the majority of its revenue through net interest income, the difference between interest income earned on loans and investments and interest paid on deposits and borrowings. Growth in net interest income is dependent upon balance sheet growth and maintaining or increasing the net interest margin, which is net interest income (fully taxable-equivalent) as a percentage of average interest-earning assets. The Corporation also generates revenue through fees earned on the various services and products offered to its customers and through sales of assets, such as loans or investments. Offsetting these revenue sources are provisions for credit losses on loans, operating expenses and income taxes.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The Corporation's net income for 2005 increased $16.5 million, or 11.0%, from $149.6 million in 2004 to $166.1 million in 2005. Diluted net income per share increased $0.06, or 6.1%, from $0.99 per share in 2004 to $1.05 per share in 2005. In 2005, the Corporation realized a return on average assets of 1.41% and a return on average tangible equity of 20.28%, compared to 1.45% and 18.58%, respectively, in 2004. Net income for 2004 increased $13.2 million, or 9.7%, from $136.4 million in 2003. Diluted net income per share increased $0.03, or 3.1%, from $0.96 per share in 2003.

In 2005, the Corporation adopted Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" (Statement 123R), using modified retrospective application. Statement 123R requires that the fair value of equity awards to employees be recognized as compensation expense over the period during which an employee is required to provide service in exchange for such award and, under the modified retrospective application, prior period results are restated. As a result, all financial information in this report has been restated to reflect the impact of adoption. For the year ended December 31, 2004, net income and diluted net income per share were reduced by $3.3 million and $0.02, respectively. For the year ended December 31, 2003, net income and diluted net income per share were reduced by $1.8 million and $0.02, respectively. See Note M, "Stock-Based Compensation Plans and Shareholders' Equity", in the Notes to Consolidated Financial Statements for information on the impact of adopting Statement 123R and its effect on prior periods.

The 2005 increase in earnings was driven by a $54.9 million, or 15.4%, increase in net interest income due to both internal and external growth and a year-over-year increase in net interest margin. Also contributing to the increase in earnings was a $16.5 million, or 13.6%, increase in other income (excluding securities gains), primarily as a result of acquisitions. These items were offset by a $38.8 million, or 14.0%, increase in other expenses, also primarily due to recent acquisitions, and an $11.1 million, or 62.6%, reduction in investment securities gains.

The following summarizes some of the more significant factors that influenced the Corporation's 2005 results.

Interest Rates – Changes in the interest rate environment generally impact both the Corporation's net interest income and its non-interest income. The interest rate environment reflects both the level of short-term rates and the slope of the U. S. Treasury yield curve, which plots the yields on treasury issues over various maturity periods. During the past year, the yield curve has flattened, with short-term rates increasing at a faster pace than longer-term rates.

Floating rate loans, short-term borrowings and savings and time deposit rates are generally influenced by short-term rates. During 2005, the Federal Reserve Board (FRB) raised the Federal funds rate eight times, for a total increase of 200 basis points since December 31, 2004, with the overnight borrowing, or Federal funds, rate ending the year at 4.25%. The Corporation's prime lending rate had a corresponding increase, from 5.25% to 7.25%. The increase in short-term rates benefited the Corporation during the first half of 2005 as floating rate loans quickly adjusted to higher rates, while increases in deposit rates – which are more discretionary – were less pronounced. Throughout the remainder of the year, competitive pressures resulted in increases in deposit rates. While the net interest margin for the year increased over the prior year, during 2005 it was flat, which is shown in the following table:

	2005	2004
1st Quarter	**3.95%**	3.79%
2nd Quarter	**3.92**	3.73
3rd Quarter	**3.92**	3.88
4th Quarter	**3.92**	3.92
Year to Date	**3.93**	3.83

With respect to longer-term rates, the 10-year treasury yield, which is a common benchmark for evaluating residential mortgage rates, increased to 4.39% at December 31, 2005 as compared to 4.24% at December 31, 2004. Mortgage rates have been historically low over the past several years, generating strong refinance activity and significant gains for the Corporation as fixed-rate residential mortgages are generally sold in the secondary market. With only a minimal increase in long-term rates from the prior year, origination volumes and the resulting gains on sales of these loans remained strong, continuing to contribute to the Corporation's non-interest income. If rates continue to rise and the yield curve steepens, residential mortgage volume could decrease, resulting in a negative impact on non-interest income, as gains on sale would decline. The "Market Risk" section of Management's Discussion summarizes the expected impact of rate changes on net interest income.

Earning Assets - The Corporation's interest-earning assets increased from 2004 to 2005 as a result of acquisitions, as well as internal loan growth. This growth also contributed to the increase in net interest income.

From 2004 to 2005, the Corporation experienced a shift in its composition of interest-earning assets from investments (23.2% of total average interest-earning assets in 2005, compared to 26.8% in 2004) to loans (74.1% in 2005, compared to 71.7% in 2004). This change resulted from strong loan demand being partially funded with the proceeds from maturing investment securities. The movement to higher-yielding loans has had a positive effect on the Corporation's net interest income and net interest margin.

Asset Quality – Asset quality refers to the underlying credit characteristics of borrowers and the likelihood that defaults on contractual loan payments will result in charge-offs of account balances. Asset quality is generally a function of economic conditions, but can be managed through conservative underwriting and sound collection policies and procedures.

The Corporation has been able to maintain strong asset quality through different economic cycles, attributable to its credit culture and underwriting policies. This trend continued in 2005 as net charge-offs to average loans decreased from 0.06% in 2004 to 0.04% in 2005. Non-performing assets to total assets increased to 0.38% at December 31, 2005, from 0.30% at December 31, 2004, however, this level is still relatively low in absolute terms. While overall asset quality has remained strong, deterioration in quality of one or several significant accounts could have a detrimental impact and result in losses that may not be foreseeable based on current information. In addition, rising interest rates could increase the total payments of borrowers and could have a negative impact on their ability to pay according to the terms of their loans.

Equity Markets – As disclosed in the "Market Risk" section of Management's Discussion, equity valuations can have an impact on the Corporation's financial performance. In particular, bank stocks account for a significant portion of the Corporation's equity investment portfolio. Historically, gains on sales of these equities have been a recurring component of the Corporation's earnings, although realized gains have decreased in recent quarters. Declines in bank stock portfolio values could have a detrimental impact on the Corporation's ability to recognize gains in the future.

Acquisitions – In July 2005, the Corporation acquired SVB Financial Services, Inc. (SVB) of Somerville, New Jersey, a $530 million bank holding company whose primary subsidiary was Somerset Valley Bank. In December 2004, the Corporation acquired First Washington FinancialCorp (First Washington), of Windsor, New Jersey, a $490 million bank holding company whose primary subsidiary was First Washington State Bank. In April 2004, the Corporation acquired Resource Bankshares Corporation (Resource); an $890 million financial holding company located in Virginia Beach, Virginia whose primary subsidiary was Resource Bank. Period-to-period comparisons in the "Results of Operations" section of Management's Discussion are impacted by these acquisitions when 2005 results are compared to 2004. Results for 2004 in comparison to 2003 were impacted by the acquisitions of First Washington, Resource and Premier Bancorp, Inc., which was acquired in August 2003. The discussion and tables within the "Results of Operations" section of Management's Discussion highlight the contributions of these acquisitions in addition to internal changes.

On February 1, 2006, the Corporation completed its acquisition of Columbia Bancorp (Columbia), of Columbia, Maryland. Columbia was a $1.3 billion bank holding company whose primary subsidiary was The Columbia Bank, which operates 19 full-service community-banking offices and five retirement community offices in Howard, Montgomery, Prince George's and Baltimore Counties and Baltimore City. For additional information on the terms of these acquisitions, see Note Q, "Mergers and Acquisitions", in the Notes to Consolidated Financial Statements.

Acquisitions have long been a supplement to the Corporation's internal growth, providing the opportunity for the Corporation's existing products and services to be sold in new markets. The Corporation's acquisition strategy focuses on high growth areas with strong market demographics and targets organizations that have a comparable corporate culture, strong performance and good asset quality, among other factors. Under its "supercommunity" banking philosophy, acquired organizations generally retain their status as separate legal entities, unless consolidation with an existing affiliate bank is practical. Back office functions are generally consolidated to maximize efficiencies.

Merger and acquisition activity in the financial services industry has been very competitive in recent years, as evidenced by the prices paid for certain acquisitions. While the Corporation has been an active acquirer, management is committed to basing its pricing on rational economic models. Management will continue to focus on generating growth in the most cost-effective manner.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

RESULTS OF OPERATIONS

Net Interest Income

Net interest income is the most significant component of the Corporation's net income, accounting for approximately 75% of total 2005 revenues, excluding investment securities gains. The ability to manage net interest income over a variety of interest rate and economic environments is important to the success of a financial institution. Growth in net interest income is generally dependent upon balance sheet growth and maintaining or growing the net interest margin. The "Market Risk" section of Management's Discussion provides additional information on the policies and procedures used by the Corporation to manage net interest income. The following table provides a comparative average balance sheet and net interest income analysis for 2005 compared to 2004 and 2003. Interest income and yields are presented on a fully taxable-equivalent (FTE) basis, using a 35% Federal tax rate. The discussion following this table is based on these tax-equivalent amounts.

(dollars in thousands)	Year Ended December 31								
	2005			2004			2003		
ASSETS	**Average Balance**	**Interest**	**Yield/ Rate (1)**	Average Balance	Interest	Yield/ Rate (1)	Average Balance	Interest	Yield/ Rate (1)
Interest-earning assets:									
Loans and leases (2)	**$ 7,981,604**	**$ 520,595**	**6.52%**	$ 6,857,386	$ 398,190	5.82%	$ 5,564,806	$ 343,883	6.18%
Taxable inv. securities (3)	**1,994,740**	**75,150**	**3.76**	2,161,195	76,792	3.55	2,170,889	77,450	3.57
Tax-exempt inv. securities (3)	**368,845**	**17,971**	**4.87**	264,578	14,353	5.43	266,426	15,650	5.87
Equity securities (3)	**132,564**	**5,333**	**4.02**	133,870	4,974	3.72	129,584	5,051	3.90
Total investment securities	**2,496,149**	**98,454**	**3.94**	2,559,643	96,119	3.74	2,566,889	98,151	3.80
Loans held for sale	**241,996**	**14,940**	**6.17**	135,758	8,407	6.19	49,271	2,953	5.99
Other interest-earning assets	**48,357**	**1,586**	**3.27**	6,067	103	1.70	22,708	241	1.06
Total interest-earning assets	**10,768,106**	**635,575**	**5.90**	9,558,854	502,819	5.26	8,203,684	445,228	5.43
Non-interest-earning assets:									
Cash and due from banks	**346,535**			316,170			279,980		
Premises and equipment	**158,526**			128,902			123,172		
Other assets (3)	**598,709**			425,825			271,758		
Less: Allowance for loan losses	**(92,780)**			(84,983)			(75,309)		
Total Assets	**$ 11,779,096**			$ 10,344,768			$ 8,803,285		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing liabilities:									
Demand deposits	**$ 1,547,766**	**$ 15,370**	**0.99%**	$ 1,364,953	$ 7,201	0.53%	$ 1,158,333	$ 6,011	0.52%
Savings deposits	**2,055,503**	**27,116**	**1.32**	1,846,503	11,928	0.65	1,655,325	10,770	0.65
Time deposits	**3,171,901**	**98,288**	**3.10**	2,693,414	70,650	2.62	2,496,234	77,417	3.10
Total interest-bearing deposits	**6,775,170**	**140,774**	**2.08**	5,904,870	89,779	1.52	5,309,892	94,198	1.77
Short-term borrowings	**1,186,464**	**34,414**	**2.87**	1,238,073	15,182	1.23	738,527	7,373	1.00
Long-term debt	**837,305**	**38,031**	**4.54**	637,654	31,033	4.87	566,437	29,523	5.21
Total interest-bearing liabilities	**8,798,939**	**213,219**	**2.42**	7,780,597	135,994	1.75	6,614,856	131,094	1.98
Non-interest-bearing liabilities:									
Demand deposits	**1,589,265**			1,380,264			1,195,479		
Other	**136,416**			114,003			97,334		
Total Liabilities	**10,524,620**			9,274,864			7,907,669		
Shareholders' equity	**1,254,476**			1,069,904			895,616		
Total Liabs. and Equity	**$ 11,779,096**			$ 10,344,768			$ 8,803,285		
Net interest income/net interest margin (FTE)		**422,356**	**3.93%**		366,825	3.83%		314,134	3.82%
Tax equivalent adjustment		**(9,778)**			(9,176)			(9,697)	
Net interest income		**$ 412,578**			$ 357,649			$ 304,437	

(1) Presented on a fully tax equivalent (FTE) basis using a 35% Federal tax rate.
(2) Includes non-performing loans.
(3) Balances include 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:

	2005 vs. 2004 Increase (decrease) due To change in			2004 vs. 2003 Increase (decrease) due To change in		
	Volume	**Rate**	**Net**	Volume	Rate	Net
			(in thousands)			
Interest income on:						
Loans and leases	**$ 70,346**	**$ 52,059**	**$ 122,405**	$ 77,526	$ (23,219)	$ 54,307
Taxable investment securities	**(5,995)**	**4,353**	**(1,642)**	(345)	(313)	(658)
Tax-exempt investment securities	**5,224**	**(1,606)**	**3,618**	(111)	(1,186)	(1,297)
Equity securities	**(49)**	**408**	**359**	164	(241)	(77)
Loans held for sale	**6,559**	**(26)**	**6,533**	5,353	101	5,454
Short-term investments	**1,310**	**173**	**1,483**	(235)	97	(138)
Total interest-earning assets	**$ 77,395**	**$ 55,361**	**$ 132,756**	$ 82,352	$ (24,761)	$ 57,591
Interest expense on:						
Demand deposits	**$ 1,076**	**$ 7,093**	**$ 8,169**	$ 1,088	$ 102	$ 1,190
Savings deposits	**1,488**	**13,700**	**15,188**	1,236	(78)	1,158
Time deposits	**13,677**	**13,961**	**27,638**	5,796	(12,563)	(6,767)
Short-term borrowings	**(648)**	**19,880**	**19,232**	5,839	1,970	7,809
Long-term debt	**9,346**	**(2,348)**	**6,998**	3,551	(2,041)	1,510
Total interest-bearing liabilities	**$ 24,939**	**$ 52,286**	**$ 77,225**	$ 17,510	$ (12,610)	$ 4,900

Note: Changes which are partly attributable to rate and volume are allocated based on the proportion of the direct changes attributable to rate and volume.

2005 vs. 2004

Net interest income (FTE) increased $55.5 million, or 15.1%, from $366.8 million in 2004 to $422.4 million in 2005, due to both average balance growth and a higher net interest margin for 2005 in comparison to 2004.

Average interest-earning assets grew 12.7%, from $9.6 billion in 2004 to $10.8 billion in 2005. Acquisitions contributed approximately $1.1 million to this increase in average balances. Interest income (FTE) increased $132.8 million, or 26.4%, partially as a result of the increase in average earning assets, which contributed $77.4 million of the increase, with the remaining growth in interest income (FTE) due to an increase in rates on interest-earning assets.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The increase in average interest-earning assets was due to loan growth, both internal and through acquisitions, as investment balances remained relatively flat. Average loans increased by $1.1 billion, or 16.4%, to $8.0 billion in 2005. The following table presents the growth in average loans, by type:

			Increase (decrease)	
	2005	2004	$	%
	(dollars in thousands)			
Commercial - industrial and financial	**$ 2,022,615**	$ 1,769,801	$ 252,814	14.3%
Commercial - agricultural	**324,637**	330,269	(5,632)	(1.7)
Real estate - commercial mortgage	**2,621,730**	2,205,025	416,705	18.9
Real estate - residential mortgage and home equity	**1,713,442**	1,498,047	215,395	14.4
Real estate - construction	**732,847**	487,954	244,893	50.2
Consumer	**499,220**	495,544	3,676	0.7
Leasing and other	**67,113**	70,746	(3,633)	(5.1)
Total	**$ 7,981,604**	$ 6,857,386	$ 1,124,218	16.4%

Acquisitions contributed approximately $694.5 million to the increase in average balances. The following table presents the average balance impact of acquisitions, by type:

	2005	2004	Increase
	(in thousands)		
Commercial - industrial and financial	**$ 214,840**	$ 84,080	$ 130,760
Commercial - agricultural	**1,297**	520	777
Real estate - commercial mortgage	**381,411**	133,705	247,706
Real estate - residential mortgage and home equity	**163,959**	63,411	100,548
Real estate - construction	**418,283**	213,340	204,943
Consumer	**7,027**	1,725	5,302
Leasing and other	**8,480**	4,001	4,479
Total	**$ 1,195,297**	$ 500,782	$ 694,515

The following table presents the growth in average loans, by type, excluding the average balances contributed by acquisitions:

			Increase (decrease)	
	2005	2004	$	%
	(dollars in thousands)			
Commercial - industrial and financial	**$ 1,807,775**	$ 1,685,721	$ 122,054	7.2%
Commercial - agricultural	**323,340**	329,749	(6,409)	(1.9)
Real estate - commercial mortgage	**2,240,319**	2,071,320	168,999	8.2
Real estate - residential mortgage and home equity	**1,549,483**	1,434,636	114,847	8.0
Real estate - construction	**314,564**	274,614	39,950	14.5
Consumer	**492,193**	493,819	(1,626)	(0.3)
Leasing and other	**58,633**	66,745	(8,112)	(12.2)
Total	**$ 6,786,307**	$ 6,356,604	$ 429,703	6.8%

Excluding the impact of acquisitions, loan growth continued to be strong in the commercial and commercial mortgage categories, which together increased $284.6 million, or 7.0%, over 2004. Construction loans grew $40.0 million, or 14.5%, in comparison to

2004 due mainly to increased activity in the Pennsylvania and New Jersey markets. Residential mortgage and home equity loans showed strong growth due to promotional efforts and customers using home equity loans as a cost-effective refinance alternative.

The average yield on loans during 2005 of 6.52% represents a 70 basis point, or 12.0%, increase in comparison to 2004. This increase reflects the impact of a significant portfolio of floating rate loans, which repriced as interest rates increased throughout the year.

Average investments decreased $63.5 million, or 2.5%, in comparison to 2004. Excluding the impact of acquisitions, the investment balances would have decreased $390.7 million, or 15.8%. During 2004, proceeds from investment maturities were used to fund loan growth, however during 2005 the Corporation's purchases of new investment securities exceeded proceeds from sales and maturities.

The average yield on investment securities improved 20 basis points from 3.74% in 2004 to 3.94% in 2005. This improvement was due partially to premium amortization decreasing, which is accounted for as a reduction of interest income, from $10.5 million in 2004 to $6.9 million in 2005 as prepayments on mortgage-backed securities decreased. The remaining increase was due to the maturity of lower yielding investments, with reinvestment at higher rates.

The following table presents the growth in average deposits, by type:

			Increase	
	2005	2004	$	%
	(dollars in thousands)			
Non-interest-bearing demand	**$ 1,589,265**	$ 1,380,264	$ 209,001	15.1%
Interest-bearing demand	**1,547,766**	1,364,953	182,813	13.4
Savings/money market	**2,055,503**	1,846,503	209,000	11.3
Time deposits	**3,171,901**	2,693,414	478,487	17.8
Total	**$ 8,364,435**	$ 7,285,134	$ 1,079,301	14.8%

Acquisitions accounted for approximately $956.0 million of the increase in average balances. The following table presents the average balance impact of acquisitions, by type:

	2005	2004	Increase
	(in thousands)		
Non-interest-bearing demand	**$ 153,483**	$ 29,985	$ 123,498
Interest-bearing demand	**147,493**	46,077	101,416
Savings/money market	**285,104**	34,282	250,822
Time deposits	**795,538**	315,256	480,282
Total	**$ 1,381,618**	$ 425,600	$ 956,018

The following table presents the growth in average deposits, by type, excluding the contribution of acquisitions:

			Increase (decrease)	
	2005	2004	$	%
	(dollars in thousands)			
Non-interest-bearing demand	**$ 1,435,782**	$ 1,350,279	$ 85,503	6.3%
Interest-bearing demand	**1,400,273**	1,318,876	81,397	6.2
Savings/money market	**1,770,399**	1,812,221	(41,822)	(2.3)
Time deposits	**2,376,363**	2,378,158	(1,795)	(0.1)
Total	**$ 6,982,817**	$ 6,859,534	$ 123,283	1.8%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Interest expense increased $77.2 million, or 56.8%, to $213.2 million in 2005 from $136.0 million in 2004. The increase in interest expense was primarily due to a 67 basis point, or 38.3%, increase in the cost of total interest-bearing liabilities in 2005 in comparison to 2004. Competitive pricing pressures have resulted in increased deposit rates in response to the FRB's rate increases throughout 2005. The remaining increase in interest expense was due to a $1.0 billion, or 13.1%, increase in total interest-bearing liabilities, partially due to acquisitions, and partially due to internal growth.

Average borrowings increased slightly during 2005, with the $51.6 million decrease in average short-term borrowings more than offset by a $199.7 million increase in long-term debt. Excluding the impact of acquisitions, average short-term borrowings decreased $147.4 million, or 13.4%, mainly due to a decrease in Federal funds purchased. In addition, customer cash management accounts, which are included in short-term borrowings, decreased $20.6 million, or 5.1%, to an average of $385.7 million in 2005. Average long-term debt increased $199.7 million, or 31.3%, to $837.3 million, with acquisitions contributing $51.7 million to the long-term debt increase. The additional increase in long-term borrowings was due to the Corporation's issuance of $100.0 million ten-year subordinated notes in March 2005 and an increase in Federal Home Loan Bank advances as longer-term rates were locked in anticipation of continued rate increases.

2004 vs. 2003

Net interest income (FTE) increased $52.7 million, or 16.8%, from $314.1 million in 2003 to $366.8 million in 2004, primarily as a result of earning asset growth, as the Corporation's net interest margin of 3.83% was only one basis point higher than the 2003 net interest margin of 3.82%.

Average earning assets grew 16.5%, from $8.2 billion in 2003 to $9.6 billion in 2004. Acquisitions contributed approximately $900.0 million to this increase in average balances. Interest income increased $57.6 million, or 12.9%, mainly as a result of the 16.5% increase in average earning assets, which resulted in an $82.4 million increase in interest income. This increase was partially offset by the $24.8 million decrease in interest income that resulted from the decline in average yields earned.

Average loans increased by $1.3 billion, or 23.2%, to $6.9 billion in 2004. Acquisitions contributed approximately $675.6 million to this increase in average balances. Loan growth was strong in the commercial and commercial mortgage categories. The growth experienced in the commercial – agricultural category resulted from an agricultural loan portfolio purchased in December 2003. The reduction in mortgage loan balances was due to customer refinance activity that occurred during 2003. The Corporation generally sells newly originated fixed rate mortgages in the secondary market to promote liquidity and manage interest rate risk. Home equity loans increased significantly due to promotional efforts and customers using home equity loans as a cost-effective refinance alternative. Consumer loans decreased, reflecting customers' repayment of these loans with tax-advantaged residential mortgage or home equity loans. In addition, the indirect finance market remained extremely competitive with the participation of vehicle manufacturers.

The average yield on loans during 2004 was 5.82%, a 36 basis point, or 5.8%, decline from 2003. Much of the loan growth during the year was in the floating rate categories that tend to carry lower interest rates than fixed-rate products.

Average investments decreased slightly during 2004, however, without the impact of acquisitions, the investment balances would have decreased $165.9 million, or 6.6%. The Corporation's investment balances had increased over the last few years due to both significant deposit growth and the use of limited strategies to manage the Corporation's gap position and to take advantage of low short-term borrowing rates. During 2004, the Corporation did not reinvest a significant portion of investment maturities in order to minimize interest rate risk in expectation of a rising rate environment and to help fund loan growth.

The average yield on investment securities declined slightly from 3.80% in 2003 to 3.74% in 2004. Premium amortization, which is accounted for as a reduction of interest income, was $20.0 million in 2003 compared to $10.5 million in 2004. The benefit from the lower premium amortization was offset by the reduction in stated yields experienced throughout 2004.

Interest expense increased $4.9 million, or 3.7%, to $136.0 million in 2004 from $131.1 million in 2003, mainly as a result of a $1.2 billion increase in average interest-bearing liabilities, which included approximately $800 million added by acquisitions. The increase in average interest-bearing liabilities resulted in an increase in interest expense of $17.5 million during 2004. This increase was

partially offset by a $12.6 million decrease due to the 23 basis point decrease in the cost of total interest-bearing liabilities. The cost of interest-bearing deposits declined 25 basis points, or 14.1%, from 1.77% in 2003 to 1.52% in 2004. This reduction was due to both the impact of declining short-term interest rates in the first half of 2003 and the continuing shifts in the composition of deposits from higher-rate time deposits to lower-rate demand and savings deposits. Customers continued to exhibit an unwillingness to invest in certificates of deposit at the rates available, instead keeping their funds in demand and savings products. Acquisitions accounted for approximately $595.4 million of the increase in average deposit balances.

Average borrowings increased significantly during 2004, with average short-term borrowings increasing $499.5 million, or 67.6%, to $1.2 billion, and average long-term debt increasing $71.2 million, or 12.6%, to $637.7 million. Acquisitions added $174.6 million to the short-term borrowings increase and $83.6 million to the long-term debt increase. The additional increase in short-term borrowings resulted primarily from certain limited strategies employed during 2003 to manage the Corporation's gap position and to take advantage of low short-term borrowing rates. In addition, customer cash management accounts, which are included in short-term borrowings, grew $54.9 million, or 15.6%, to an average of $406.2 million in 2004.

Provision and Allowance for Loan Losses

The Corporation accounts for the credit risk associated with lending activities through its allowance and provision for loan losses. The provision is the expense recognized in the income statement to adjust the allowance to its proper balance, as determined through the application of the Corporation's allowance methodology procedures. These procedures include the evaluation of the risk characteristics of the portfolio and documentation in accordance with the Securities and Exchange Commission's (SEC) Staff Accounting Bulletin No. 102, "Selected Loan Loss Allowance Methodology and Documentation Issues" (SAB 102). See the "Critical Accounting Policies" section of Management's Discussion for a discussion of the Corporation's allowance for loan loss evaluation methodology.

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

	Year Ended December 31				
	2005	2004	2003	2002	2001
	(dollars in thousands)				
Loans outstanding at end of year	**$ 8,424,728**	$7,533,915	$ 6,140,200	$ 5,295,459	$ 5,373,020
Daily average balance of loans and leases	**$ 8,022,782**	$6,884,694	$ 5,527,092	$ 5,366,772	$ 5,341,497
Balance of allowance for loan losses at beginning of year	**$ 89,627**	$ 77,700	$ 71,920	$ 71,872	$ 65,640
Loans charged-off:					
Commercial, financial and agricultural	**4,095**	3,482	6,604	7,203	6,296
Real estate – mortgage	**467**	1,466	1,476	2,204	767
Consumer	**3,436**	3,476	4,497	5,587	6,683
Leasing and other	**206**	453	651	676	529
Total loans charged-off	**8,204**	8,877	13,228	15,670	14,275
Recoveries of loans previously charged-off:					
Commercial, financial and agricultural	**2,705**	2,042	1,210	842	703
Real estate – mortgage	**1,245**	906	711	669	364
Consumer	**1,169**	1,496	1,811	2,251	2,683
Leasing and other	**77**	76	97	56	87
Total recoveries	**5,196**	4,520	3,829	3,818	3,837
Net loans charged-off	**3,008**	4,357	9,399	11,852	10,438
Provision for loan losses	**3,120**	4,717	9,705	11,900	14,585
Allowance purchased	**3,108**	11,567	5,474	-	2,085
Balance at end of year	**$ 92,847**	$ 89,627	$ 77,700	$ 71,920	$ 71,872
Selected Asset Quality Ratios:					
Net charge-offs to average loans	**0.04%**	0.06%	0.17%	0.22%	0.20%
Allowance for loan losses to loans outstanding at end of year	**1.10%**	1.19%	1.27%	1.36%	1.34%
Non-performing assets (1) to total assets	**0.38%**	0.30%	0.33%	0.47%	0.44%
Non-accrual loans to total loans	**0.43%**	0.30%	0.37%	0.45%	0.42%

(1) Includes accruing loans past due 90 days or more.

The following table presents the aggregate amount of non-accrual and past due loans and other real estate owned (3):

	December 31				
	2005	2004	2003	2002	2001
	(in thousands)				
Non-accrual loans (1) (2)	**$ 36,560**	$ 22,574	$ 22,422	$ 24,090	$ 22,794
Accruing loans past due 90 days or more	**9,012**	8,318	9,609	14,095	9,368
Other real estate	**2,072**	2,209	585	938	1,817
Totals	**$ 47,644**	$ 33,101	$ 32,616	$ 39,123	$ 33,979

(1) As of December 31, 2005, the additional interest income that would have been recorded during 2005 if non-accrual loans had been current in accordance with their original terms was approximately $3.0 million. The amount of interest income on non-accrual loans that was included in 2005 income was approximately $2.2 million.

(2) Accrual of interest is generally discontinued when a loan becomes 90 days past due as to principal and interest. When interest accruals are discontinued, interest credited to income is reversed. Non-accrual loans are restored to accrual status when all delinquent principal and interest becomes current or the loan is considered secured and in the process of collection. Certain loans, primarily residential mortgages, that are determined to be sufficiently collateralized may continue to accrue interest after reaching 90 days past due.

(3) Excluded from the amounts presented at December 31, 2005 are $132.3 million in loans where possible credit problems of borrowers have caused management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms. These loans are considered to be impaired under Statement 114, but continue to pay according to their contractual terms and are therefore not included in non-performing loans. Non-accrual loans include $13.2 million of impaired loans.

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

	December 31									
	2005		2004		2003		2002		2001	
	(dollars in thousands)									
	Allowance	**% of Loans in Each Category**	Allowance	% of Loans in Each Category	Allowance	% of Loans in Each Category	Allowance	% of Loans in Each Category	Allowance	% of Loans in Each Category
Comm'l, financial & agriculture	**$ 52,379**	**28.2%**	$ 43,207	30.1%	$ 34,247	31.7%	$ 33,130	31.6%	$ 22,531	27.8%
Real estate – Mortgage	**17,602**	**64.7**	19,784	62.5	14,471	59.0	13,099	56.8	19,018	58.9
Consumer, leasing & other	**7,935**	**7.1**	16,289	7.4	16,279	9.3	14,178	11.6	10,855	13.3
Unallocated	**14,931**	**-**	10,347	-	12,703	-	11,513	-	19,468	-
Totals	**$ 92,847**	**100.0%**	$ 89,627	100.0%	$ 77,700	100.0%	$ 71,920	100.0%	$ 71,872	100.0%

The provision for loan losses decreased $1.6 million from $4.7 million in 2004 to $3.1 million in 2005, after decreasing $5.0 million in 2004. These decreases resulted from the continued improvement in the Corporation's asset quality, as reflected in lower net charge-offs. Net charge-offs as a percentage of average loans were 0.04% in 2005, a two basis point decrease from 0.06% in 2004, which was an 11 basis point decrease from 2003. Total net charge-offs of $3.0 million in 2005 and $4.4 million in 2004 approximated the amounts recorded for the provision for loan losses in those years. Non-performing assets as a percentage of total assets increased slightly from 0.30% at December 31, 2004 to 0.38% at December 31, 2005, after decreasing three basis points in 2004. While the

non-performing assets ratio increased eight basis points in comparison to 2004, the level of non-performing assets was still relatively low in absolute terms.

The provision for loan losses is determined by the allowance allocation process, whereby an estimated "need" is allocated to impaired loans as defined in Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan", or to pools of loans under Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies". The allocation is based on risk factors, collateral levels, economic conditions and other relevant factors, as appropriate. The Corporation also maintains an unallocated allowance, which was approximately 16% at December 31, 2005. The unallocated allowance is used to cover any factors or conditions that might exist at the balance sheet date, but are not specifically identifiable. Management believes such an unallocated allowance is reasonable and appropriate as the estimates used in the allocation process are inherently imprecise. See additional disclosures in Note A, "Summary of Significant Accounting Policies", in the Notes to Consolidated Financial Statements and "Critical Accounting Policies", in Management's Discussion. Management believes that the allowance balance of $92.8 million at December 31, 2005 is sufficient to cover losses inherent in the loan portfolio on that date and is appropriate based on applicable accounting standards.

Other Income and Expenses

2005 vs. 2004

Other Income

The following table presents the components of other income for the past two years:

			Increase (decrease)	
	2005	2004	$	%
	(dollars in thousands)			
Investment management and trust services	**$ 35,669**	$ 34,817	$ 852	2.4%
Service charges on deposit accounts	**40,198**	39,451	747	1.9
Other service charges and fees	**24,200**	20,494	3,706	18.1
Gain on sale of loans	**25,468**	19,262	6,206	32.2
Gain on sale of deposits	**2,200**	-	2,200	N/A
Investment securities gains	**6,625**	17,712	(11,087)	(62.6)
Other	**9,908**	7,128	2,780	39.0
Total	**$ 144,268**	$ 138,864	$ 5,404	3.9%

The following table presents the amounts included in the above totals which were contributed by acquisitions:

	2005	2004	Increase (decrease)
	(in thousands)		
Investment management and trust services	**$ 1,446**	$ 490	$ 956
Service charges on deposit accounts	**1,410**	186	1,224
Other service charges and fees	**877**	151	726
Gain on sale of loans	**17,422**	11,108	6,314
Investment securities losses	**(269)**	-	(269)
Other	**4,076**	2,529	1,547
Total	**$ 24,962**	$ 14,464	$ 10,498

As shown in the preceding table, recent acquisitions did not make a significant contribution to other income, except mortgage banking income, which is a significant line of business for Resource Bank.

The following table presents the components of other income for each of the past two years, excluding the amounts contributed by acquisitions:

			Increase (decrease)	
	2005	2004	$	%
	(dollars in thousands)			
Investment management and trust services	**$ 34,223**	$ 34,327	$ (104)	(0.3)%
Service charges on deposit accounts	**38,788**	39,265	(477)	(1.2)
Other service charges and fees	**23,323**	20,343	2,980	14.6
Gain on sale of loans	**8,046**	8,154	(108)	(1.3)
Gain on sale of deposits	**2,200**	-	2,200	N/A
Investment securities gains	**6,894**	17,712	(10,818)	(61.1)
Other	**5,832**	4,599	1,233	26.8
Total	**$ 119,306**	$ 124,400	$ (5,094)	(4.1)%

The discussion that follows, unless otherwise noted, addresses changes in other income, excluding acquisitions.

In 2005, total other income decreased $5.1 million, or 4.1%. Excluding investment securities gains, other income increased $5.7 million, or 5.4%.

Investment management and trust services decreased slightly by $104,000, or 0.3%. The 2005 decrease was due to brokerage revenue decreasing $242,000, or 2.0%, offset by trust commission income increasing $138,000, or 0.6%.

Total service charges on deposit accounts decreased $477,000, or 1.2%. The decrease was due to the Corporation reducing service charges on deposit accounts in an effort to remain competitive and the impact of rising interest rates on commercial deposit account service charge credits. This decrease was offset by increases in overdraft and cash management fees. Overdraft fees increased $778,000, or 4.7%, and cash management fees increased $229,000, or 3.0%. During 2005, the rising interest rate environment began to make cash management services more attractive for business customers.

Other service charges and fees increased $3.0 million, or 14.6%. The increase was driven by growth in letter of credit fees ($553,000 or 15.6%, increase), merchant fees ($2.2 million, or 44.4%, increase) and debit card fees ($712,000, or 12.6%, increase). The growth in merchant fees resulted from a one-time fee adjustment and continued penetration in new markets. Debit card fees increased due to increased volume.

Gains on sales of loans decreased only $108,000, or 1.3%, as overall volumes remained strong despite a slight increase in longer-term mortgage rates. Other income increased $1.2 million, or 26.8%, due to growth in net servicing income on mortgage loans and gains on sales of other real estate owned.

The gain on sale of deposits resulted from the Corporation selling three branches and related deposits in two separate transactions during the second quarter of 2005. Virtually the entire $2.2 million gain resulted from the premiums received on the $36.7 million of deposits sold.

Including the impact of acquisitions, investment securities gains decreased $11.1 million, or 62.6%, in 2005. Investment securities gains included realized gains on the sale of equity securities of $5.8 million in 2005, down from $14.8 million in 2004, reflecting the general decline in the equity markets and bank stocks in particular, and $843,000 and $3.1 million in 2005 and 2004, respectively, on the sale of debt securities, which were generally sold to take advantage of the interest rate environment.

Other Expenses

The following table presents the components of other expenses for each of the past two years:

	2005	2004	Increase $	Increase %
	(dollars in thousands)			
Salaries and employee benefits	**$ 181,889**	$ 166,026	$ 15,863	9.6%
Net occupancy expense	**29,275**	23,813	5,462	22.9
Equipment expense	**11,938**	10,769	1,169	10.9
Data processing	**12,395**	11,430	965	8.4
Advertising	**8,823**	6,943	1,880	27.1
Intangible amortization	**5,311**	4,726	585	12.4
Other	**66,660**	53,808	12,852	23.9
Total	**$ 316,291**	$ 277,515	$ 38,776	14.0%

The following table presents the amounts included in the above totals which were contributed by acquisitions:

	2005	2004	Increase
	(in thousands)		
Salaries and employee benefits	**$ 28,215**	$ 13,371	$ 14,844
Net occupancy expense	**5,620**	1,986	3,634
Equipment expense	**2,662**	1,097	1,565
Data processing	**2,005**	716	1,289
Advertising	**1,357**	633	724
Intangible amortization	**1,751**	381	1,370
Other	**15,964**	5,331	10,633
Total	**$ 57,574**	$ 23,515	$ 34,059

The following table presents the components of other expenses for each of the past two years, excluding the amounts contributed by acquisitions:

	2005	2004	Increase (decrease) $	Increase (decrease) %
	(dollars in thousands)			
Salaries and employee benefits	**$ 153,674**	$ 152,655	$ 1,019	0.7%
Net occupancy expense	**23,655**	21,827	1,828	8.4
Equipment expense	**9,276**	9,672	(396)	(4.1)
Data processing	**10,390**	10,714	(324)	(3.0)
Advertising	**7,466**	6,310	1,156	18.3
Intangible amortization	**3,560**	4,345	(785)	(18.1)
Other	**50,696**	48,477	2,219	4.6
Total	**$ 258,717**	$ 254,000	$ 4,717	1.9%

The discussion that follows addresses changes in other expenses, excluding acquisitions.

Salaries and employee benefits increased $1.0 million, or 0.7%, in 2005, with the salary expense component increasing $856,000, or 0.7%. The increase was driven by normal salary increases for existing employees and a slight increase in the number of full-time

employees, offset by a decrease in stock-based compensation expense from $3.9 million in 2004 to $1.0 million in 2005. The decrease in stock-based compensation expense was primarily due to a change in vesting for stock options from 100% vesting for the 2004 grant to a three-year vesting period for the 2005 grant. See additional discussion in Note M, "Stock-Based Compensation Plans and Shareholders' Equity", in the Notes to Consolidated Financial Statements. Employee benefits increased $163,000, or 0.6%, due primarily to increased retirement plan expenses, offset by lower healthcare expenses as the Corporation changed to a lower cost healthcare provider in 2005. See additional discussion of certain retirement plans in Note L, "Employee Benefit Plans", in the Notes to Consolidated Financial Statements.

Net occupancy expense increased $1.8 million, or 8.4%. The increase resulted from the expansion of the branch network and the addition of new office space for certain affiliates. Equipment expense decreased $396,000, or 4.1%, in 2005, due to lower depreciation expense for equipment as items became fully depreciated, offset partially by increases due to additions for branch network and office expansions.

Data processing expense decreased $324,000, or 3.0%, reflecting the Corporation's success over the past few years in renegotiating key processing contracts with certain vendors, most notably an automated teller service provider in 2005. Advertising expense increased $1.2 million, or 18.3%, mainly due to growth in retail promotional campaigns.

Intangible amortization decreased $785,000, or 18.1%. Intangible amortization consists of the amortization of unidentifiable intangible assets related to branch and loan acquisitions, core deposit intangible assets and other identified intangible assets. The decrease in 2005 was related to lower amortization related to core deposit intangible assets, which are amortized on an accelerated basis over the estimated life of the acquired core deposits.

Other expense increased $2.2 million, or 4.6%, in 2005 mainly due to a $2.2 million legal reserve recorded during the fourth quarter of 2005 related to a settlement of a lawsuit, which is subject to court approval. The suit alleged that Resource Bank violated the Telephone Consumer Protection Act (TCPA), prior to being acquired by Fulton Financial in April 2004. For further details, see Note O, "Commitments and Contingencies", in the Notes to Consolidated Financial Statements.

2004 vs. 2003

Other Income

Total other income increased $4.5 million, or 3.3%, from $134.4 million in 2003 to $138.9 million in 2004. Excluding investment securities gains, other income increased $6.6 million, or 5.8%, in 2004. The acquisition of Resource contributed $14.4 million to total other income in 2004. Premier did not have a significant impact on other income growth in 2004. The discussion that follows, unless otherwise noted, addresses changes in other income, excluding acquisitions.

Investment management and trust services income grew $68,000, or 0.2%, in 2004. Brokerage revenue increased $484,000, or 4.1%, while trust commission income decreased $416,000, or 1.9%.

Total service charges on deposit accounts increased $566,000, or 1.5%, in 2004. Overdraft fees increased $979,000, or 6.4%, and cash management fees increased only $39,000, or 0.5%, due to the low interest rate environment making cash management services less attractive for smaller business customers.

Other service charges and fees increased $1.4 million, or 7.2%, in 2004. The increase was driven by growth in letter of credit fees, merchant fees and debit card fees. Letter of credit fees increased $104,000, or 3.1%, and merchant fees increased $370,000, or 8.2%, all as a result of an increased focus on growing these business lines. Debit card fees increased $494,000, or 9.7%, due to an increase in transaction volume.

Gains on sales of loans decreased $10.8 million, or 57.0%. The decrease was due to the increase in interest rates from their historic lows and the resulting reduction in the level of mortgage refinancing activity. Other income increased $254,000, or 6.0%, in 2004.

Including the impact of acquisitions, investment securities gains decreased $2.1 million, or 10.8%. Investment securities gains included realized gains on the sale of equity securities of $14.8 million, reflecting the general improvement in the equity markets and

bank stocks in particular, and $3.1 million on the sale of debt securities, which were generally sold to take advantage of the interest rate environment. These gains were offset by write-downs of $137,000 in 2004 for specific equity securities deemed to exhibit other than temporary impairment in value.

Other Expenses

Total other expenses increased $43.9 million, or 18.8%, in 2004, including $30.0 million due to acquisitions. The discussion that follows addresses changes in other expenses, excluding acquisitions.

Salaries and employee benefits increased $11.5 million, or 8.5%. The salary expense component increased $6.4 million, or 5.7%, driven by normal salary increases for existing employees, as total average full-time equivalent employees remained relatively consistent at approximately 2,900. Employee benefits increased $5.1 million, or 21.7%, driven mainly by increases in healthcare costs and retirement plan expenses.

Net occupancy expense increased $1.4 million, or 7.0%, to $20.9 million. The increase resulted from the expansion of the branch network and the addition of new office space for certain affiliates. Equipment expense decreased $1.0 million, or 9.9%, mainly in depreciation, as certain equipment became fully depreciated.

Data processing expense decreased $651,000, or 5.8%, due to the successful renegotiation of key processing contracts with certain vendors. Advertising expense decreased $76,000, or 1.3%, due to efforts to control these discretionary expenses.

Intangible amortization increased $1.7 million, or 116.4%. The increase in 2004 primarily resulted from the amortization of intangible assets related to the acquisition of an agriculture loan portfolio in December 2003.

Other expense increased $916,000, or 2.1%, as a result of compliance costs associated with the provisions of the Sarbanes-Oxley Act of 2002. These costs were realized in external audit fees, which increased from $363,000 in 2003 to $1.6 million in 2004, as well as an additional $400,000 in consulting expense during 2004. These cost increases were offset by reductions in operating risk loss, other real estate expenses and legal fees.

Income Taxes

Income taxes increased $6.7 million, or 10.3%, in 2005 and $5.6 million, or 9.5%, in 2004. The Corporation's effective tax rate (income taxes divided by income before income taxes) remained fairly stable at 30.1%, 30.2% and 30.2% in 2005, 2004 and 2003, respectively. In general, the variances from the 35% Federal statutory rate consisted of tax-exempt interest income and investments in low and moderate income housing partnerships (LIH Investments), which generate Federal tax credits. Net credits were $4.9 million, $4.5 million and $4.0 million in 2005, 2004 and 2003, respectively.

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

FINANCIAL CONDITION

Total assets increased $1.2 billion, or 11.1%, to $12.4 billion at December 31, 2005, from $11.2 billion at December 31, 2004. Excluding the SVB acquisition in July 2005, total assets increased $650.5 million, or 5.8%. During 2005, increases in deposits and proceeds from short and long-term borrowings were used to fund loan growth. Total loans, net of the allowance for loan losses, increased $887.6 million, or 11.9% ($585.9 million, or 7.9%, excluding the acquisition of SVB). Total deposits increased $909.3 million, or 11.5%, to $8.8 billion at December 31, 2005 ($435.8 million, or 5.5%, excluding the acquisition of SVB), and total borrowings increased $280.5 million, or 14.9% ($255.8 million, or 13.6%, excluding the acquisition of SVB).

The table below presents a condensed ending balance sheet for the Corporation, adjusted for the balances recorded for the 2005 acquisition of SVB, in comparison to 2004 ending balances.

	2005			2004	Increase (decrease) (3)	
	Fulton Financial Corporation (As Reported)	**SVB Financial Services, Inc. (1)**	**Fulton Financial Corporation (2)**	Fulton Financial Corporation	$	%
Assets:			(dollars in thousands)			
Cash and due from banks	**$ 368,043**	**$ 20,035**	**$ 348,008**	$ 278,065	$ 69,943	25.2%
Other earning assets	**275,310**	**61,046**	**214,264**	246,192	(31,928)	(13.0)
Investment securities	**2,562,145**	**124,916**	**2,437,229**	2,449,859	(12,630)	(0.5)
Loans, net allowance	**8,331,881**	**301,660**	**8,030,221**	7,444,288	585,933	7.9
Premises and equipment	**170,254**	**9,345**	**160,909**	146,911	13,998	9.5
Goodwill and intangible assets	**448,422**	**63,273**	**385,149**	389,322	(4,173)	(1.1)
Other assets	**245,500**	**10,608**	**234,892**	205,511	29,381	14.3
Total Assets	**$ 12,401,555**	**$ 590,883**	**$ 11,810,672**	$ 11,160,148	$ 650,524	5.8%
Liabilities and Shareholders' Equity:						
Deposits	**$ 8,804,839**	**$ 473,490**	**$ 8,331,349**	$ 7,895,524	$ 435,825	5.5%
Short-term borrowings	**1,298,962**	**-**	**1,298,962**	1,194,524	104,438	8.7
Long-term debt	**860,345**	**24,710**	**835,635**	684,236	151,399	22.1
Other liabilities	**154,438**	**2,290**	**152,148**	141,777	10,371	7.3
Total Liabilities	**11,118,584**	**500,490**	**10,618,094**	9,916,061	$ 702,033	7.1
Shareholders' equity	**1,282,971**	**90,393**	**1,192,578**	1,244,087	(51,509)	(4.1)
Total Liabilities and Shareholders' Equity	**$ 12,401,555**	**$ 590,883**	**$ 11,810,672**	$ 11,160,148	$ 650,524	5.8%

(1) Balances recorded for the July 1, 2005 acquisition of SVB Financial Services, Inc.
(2) Excluding balances recorded for SVB Financial Services, Inc.
(3) Fulton Financial Corporation, excluding balances recorded for SVB Financial Services, Inc. as compared to 2004.

Loans

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

	December 31				
	2005	2004	2003	2002	2001
			(in thousands)		
Commercial – industrial and financial	**$ 2,044,010**	$ 1,946,962	$ 1,594,451	$ 1,489,990	$ 1,341,280
Commercial – agricultural	**331,659**	326,176	354,517	189,110	154,100
Real-estate – commercial mortgage	**2,831,405**	2,461,016	1,992,650	1,527,143	1,428,066
Real-estate – residential mortgage and home equity	**1,774,260**	1,651,321	1,324,612	1,244,783	1,468,799
Real-estate – construction	**851,451**	595,567	307,108	248,565	267,627
Consumer	**519,094**	486,877	496,793	521,431	626,985
Leasing and other	**79,738**	72,795	77,646	84,063	98,823
	8,431,617	7,540,714	6,147,777	5,305,085	5,385,680
Unearned income	**(6,889)**	(6,799)	(7,577)	(9,626)	(12,660)
Totals	**$ 8,424,728**	$ 7,533,915	$ 6,140,200	$ 5,295,459	$ 5,373,020

Total loans, net of unearned income, increased $890.9 million, or 11.8%, in 2005 ($586.0 million, or 7.8%, excluding the acquisition of SVB). The internal growth of $586.0 million included increases in total commercial loans ($31.5 million, or 1.4%), commercial mortgage loans ($196.1 million, or 8.0%), construction loans ($255.9 million, or 43.0%), and residential mortgage and home equity loans ($94.0 million, or 5.7%).

In 2004, total loans, net of unearned income, increased $1.4 billion, or 22.7% ($521.7 million, or 8.5%, excluding the 2004 acquisitions of Resource and First Washington). The internal growth of $521.7 million included increases in total commercial loans ($148.5 million, or 7.6%), commercial mortgage loans ($183.7 million, or 9.2%), construction loans ($11.5 million, or 3.8%), and residential mortgages and home equity loans ($235.0 million, or 17.7%), offset partially by decreases in consumer loans ($50.0 million, or 10.0%) and leasing and other loans ($4.9 million, or 6.2%). In both 2005 and 2004, the Corporation experienced strong overall loan growth as a result of favorable economic conditions and interest rates.

Investment Securities

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

	December 31								
	2005			2004			2003		
	HTM	**AFS**	**Total**	HTM	AFS	Total	HTM	AFS	Total
					(in thousands)				
Equity securities	**$ -**	**$ 135,532**	**$ 135,532**	$ -	$ 170,065	$ 170,065	$ -	$ 212,352	$ 212,352
U.S. Government securities	**-**	**35,118**	**35,118**	-	68,449	68,449	-	76,422	76,422
U.S. Government sponsored agency securities	**7,512**	**205,182**	**212,694**	6,903	60,476	67,379	7,728	6,017	13,745
State and municipal	**5,877**	**438,987**	**444,864**	10,658	332,455	343,113	4,462	298,030	302,492
Corporate debt securities	**-**	**65,834**	**65,834**	650	71,127	71,777	640	28,656	29,296
Mortgage-backed securities	**4,869**	**1,663,234**	**1,668,103**	6,790	1,722,286	1,729,076	10,163	2,282,680	2,292,843
Totals	**$ 18,258**	**$ 2,543,887**	**$ 2,562,145**	$ 25,001	$2,424,858	$ 2,449,859	$ 22,993	$2,904,157	$ 2,927,150

Total investment securities increased $112.3 million, or 4.6% (decreased $12.6 million, or 0.5%, excluding the acquisition of SVB), to a balance of $2.6 billion at December 31, 2005. In 2004, investment securities decreased $477.3 million, or 16.3%, to reach a balance of $2.4 billion. The decrease in 2004 resulted from maturities and prepayments that were not reinvested due to rising short-term interest rates.

The Corporation classified 99.3% of its investment portfolio as available for sale at December 31, 2005 and, as such, these investments were recorded at their estimated fair values. As short-term interest rates increased throughout the year, the net unrealized loss on non-equity available for sale investment securities increased $38.8 million from a net unrealized loss of $21.1 million at December 31, 2004 to a net unrealized loss of $59.9 million at December 31, 2005.

At December 31, 2005, equity securities consisted of Federal Home Loan Bank (FHLB) and other government agency stock ($57.3 million), stocks of other financial institutions ($71.0 million) and mutual funds ($7.2 million). The bank stock portfolio has historically been a source of capital appreciation and realized gains ($5.8 million in 2005, $14.8 million in 2004 and $17.3 million in 2003). Management periodically sells bank stocks when, in its opinion, valuations and market conditions warrant such sales.

Other Assets

Cash and due from banks increased $90.0 million, or 32.4% ($69.9 million, or 25.2%, excluding the acquisition of SVB), in 2005, following a $22.9 million, or 7.6%, decrease in 2004. Because of the daily fluctuations that result in the normal course of business, cash is more appropriately analyzed in terms of average balances. On an average balance basis, cash and due from banks increased $30.4 million, or 9.6%, from $316.2 million in 2004 to $346.5 million in 2005, following a $36.2 million, or 12.9%, increase in 2004. The increase in both years resulted from acquisitions and growth in the Corporation's branch network.

Premises and equipment increased $23.3 million, or 15.9%, in 2005 to $170.3 million, which included $9.3 million as a result of the acquisition of SVB. The remaining increase reflects additions primarily for the construction of various new branch and office facilities.

Goodwill and intangible assets increased $59.1 million, or 15.2%, in 2005 primarily due to the acquisition of SVB, following a $244.5 million, or 168.9%, increase in 2004, also as a result of acquisitions. Other assets increased $40.0 million, or 19.5%, in 2005 to $245.5 million, including $10.6 million as a result of the acquisition of SVB. The increase in other assets was due primarily to an increase in the net deferred tax asset due to increases in unrealized losses on investment securities, an increase in accrued interest receivable related to increases in loans and interest rates, and the additional funding of the defined benefit pension plan in 2005, offset by a decrease in LIH Investments due to amortization of existing investments.

Deposits and Borrowings

Deposits increased $909.3 million, or 11.5%, to $8.8 billion at December 31, 2005 ($435.8 million, or 5.5%, excluding the acquisition of SVB). This compares to an increase of $1.1 billion, or 16.9%, in 2004 ($118.9 million, or 1.8%, excluding the 2004 acquisitions of Resource and First Washington). As in the prior year, the trend during the first half of 2005 was strong growth in core demand and savings accounts, offset by declines in time deposits. In the second half of 2005, consumers began increasing investments in time deposits due to rising long-term rates, resulting in an overall increase in time deposits for 2005. If longer-term rates continue to increase in the future, a shift in deposit funds to higher cost time deposits could occur.

During 2005, total demand deposits increased $300.4 million, or 10.0% ($147.5 million, or 4.9%, excluding the acquisition of SVB), savings deposits increased $208.3 million, or 10.9% ($36.5 million, or 1.9%, excluding the acquisition of SVB), and time deposits increased $400.7 million, or 13.5% ($251.9 million, or 8.5%, excluding the acquisition of SVB).

During 2004, demand deposits increased $457.1 million, or 17.9% ($234.6 million, or 10.8%, excluding the 2004 acquisitions of Resource and First Washington), savings deposits increased $165.7 million, or 9.5% ($58.7 million, or 3.8%, excluding the 2004 acquisitions of Resource and First Washington), and time deposits increased $520.9 million, or 21.3% (decrease of $174.5 million, or 7.2%, excluding the 2004 acquisitions of Resource and First Washington). The trend in 2004 was strong growth in core demand and

savings accounts due to consumers favoring banks over the equity markets. In addition, the relatively low interest rate environment resulted in consumers favoring demand and savings products over time deposits, as incremental long-term rates were not attractive.

Short-term borrowings, which consist mainly of Federal funds purchased and customer cash management accounts, increased $104.4 million, or 8.7%, in 2005 after decreasing $202.2 million, or 14.5%, in 2004 ($329.9 million, or 23.6%, excluding the 2004 acquisitions of Resource and First Washington). The increase in 2005 was due to purchases of Federal funds as loan growth outpaced deposit increases, offset by decreases in customer cash management accounts. In 2004, the decrease was due to strategies to reduce overnight Federal funds purchased in a rising rate environment. Long-term debt increased $176.1 million, or 25.7% ($151.4 million, or 22.1%, excluding the acquisition of SVB), primarily due to the Corporation's issuance of $100.0 million of ten-year subordinated notes in March 2005, and partially due to an increase in Federal Home Loan Bank advances.

Other Liabilities

Other liabilities increased $12.7 million, or 8.9% ($10.4 million, or 7.3%, excluding the acquisition of SVB), following a $38.6 million, or 37.5%, increase in 2004. The increase in 2005 was primarily attributable to an increase in dividends payable to shareholders ($3.0 million), an increase in the fair value of derivative financial instruments ($5.9 million), and the additional legal accrual for the TCPA lawsuit ($2.2 million). The increase in 2004 was primarily attributable to additional equity commitments for low-income housing projects ($9.2 million increase), an increase in accrued retirement benefits ($2.4 million) and an increase in dividends payable to shareholders ($2.5 million).

Shareholders' Equity

Total shareholders' equity increased $38.9 million, or 3.1%, to $1.3 billion, or 10.3% of ending total assets, as of December 31, 2005. This growth was due primarily to 2005 net income of $166.1 million, offset by dividends to shareholders of $88.5 million. In addition, equity increased $66.6 million for stock issued for the SVB acquisition, decreased $85.2 million for treasury stock purchases, and decreased $30.5 million as a result of increased unrealized losses on investment securities.

The Corporation periodically implements stock repurchase plans for various corporate purposes. In addition to evaluating the financial benefits of implementing repurchase plans, management also considers liquidity needs, the current market price per share and regulatory limitations. In 2002, the Board of Directors approved a stock repurchase plan for 7.3 million shares, which was extended through June 30, 2004. During 2004, 1.6 million shares were repurchased under this plan. On June 15, 2004, the Board of Directors approved a stock repurchase plan for 5.0 million shares through December 31, 2004. During 2004, 3.1 million shares were repurchased under this plan, including 1.3 million shares acquired under an "Accelerated Share Repurchase" program (ASR). On December 21, 2004, the Board of Directors extended the stock repurchase plan through June 30, 2005 and increased the total number of shares that could be repurchased to 5.0 million. No shares were purchased under this extended plan in 2004. During 2005, 4.3 million shares were repurchased under this plan through an ASR.

Under an ASR, the Corporation repurchases shares immediately from an investment bank rather than over time. The investment bank, in turn, repurchases shares on the open market over a period that is determined by the average daily trading volume of the Corporation's shares, among other factors. For the ASR in effect at December 31, 2005, which was implemented in the second quarter of 2005, the Corporation settled its position with the investment bank at the termination of the ASR by paying cash in an amount representing the difference between the initial prices paid and the actual price of the shares repurchased. The Corporation completed the ASR in February of 2006, and paid the investment bank a total of $3.4 million for this difference.

The Corporation and its subsidiary banks are subject to regulatory capital requirements administered by various banking regulators. Failure to meet minimum capital requirements can initiate certain actions by regulators that could have a material effect on the Corporation's financial statements. The regulations require that banks maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier I capital to average assets (as defined). As of December 31, 2005, the Corporation and each of its bank subsidiaries met the minimum capital requirements. In addition, the Corporation and each of its bank subsidiaries' capital ratios exceeded the amounts required to be considered "well-capitalized" as defined in the regulations. See also Note J, "Regulatory Matters", in the Notes to Consolidated Financial Statements.

Contractual Obligations and Off-Balance Sheet Arrangements

The Corporation has various financial obligations that require future cash payments. These obligations include the payment of liabilities recorded on the Corporation's balance sheet as well as contractual obligations for purchased services or for operating leases. The following table summarizes significant contractual obligations to third parties, by type, that are fixed and determinable at December 31, 2005:

	Payments Due In				
	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
			(in thousands)		
Deposits with no stated maturity (a)	$ 5,435,119	$ -	$ -	$ -	$ 5,435,119
Time deposits (b)	1,894,744	969,418	211,047	294,511	3,369,720
Short-term borrowings (c)	1,298,962	-	-	-	1,298,962
Long-term debt (c)	33,734	289,282	128,238	409,091	860,345
Operating leases (d)	10,437	17,356	11,329	33,186	72,308
Purchase obligations (e)	13,719	25,736	14,349	-	53,804

(a) Includes demand deposits and savings accounts, which can be withdrawn by customers at any time.
(b) See additional information regarding time deposits in Note H, "Deposits", in the Notes to Consolidated Financial Statements.
(c) See additional information regarding borrowings in Note I, "Short-Term Borrowings and Long-Term Debt", in the Notes to Consolidated Financial Statements.
(d) See additional information regarding operating leases in Note N, "Leases", in the Notes to Consolidated Financial Statements.
(e) Includes significant information technology, telecommunication and data processing outsourcing contracts. Variable obligations, such as those based on transaction volumes, are not included.

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

The following table presents the Corporation's commitments to extend credit and letters of credit as of December 31, 2005 (in thousands):

Commercial mortgage, construction and land development	$ 829,769
Home equity	494,872
Credit card	382,415
Commercial and other	2,028,997
Total commitments to extend credit	$ 3,736,053
Standby letters of credit	$ 599,191
Commercial letters of credit	23,037
Total letters of credit	$ 622,228

CRITICAL ACCOUNTING POLICIES

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

Allowance and Provision for Loan Losses – The Corporation accounts for the credit risk associated with its lending activities through the allowance and provision for loan losses. The allowance is an estimate of the losses inherent in the loan portfolio as of the balance sheet date. The provision is the periodic charge to earnings, which is necessary to adjust the allowance to its proper balance. On a quarterly basis, the Corporation assesses the adequacy of its allowance through a methodology that consists of the following:

- Identifying loans for individual review under Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan" (Statement 114). In general, these consist of large balance commercial loans and commercial mortgages that are rated less than "satisfactory" based upon the Corporation's internal credit-rating process.
- Assessing whether the loans identified for review under Statement 114 are "impaired". That is, whether it is probable that all amounts will not be collected according to the contractual terms of the loan agreement.
- For loans identified as impaired, calculating the estimated fair value, using observable market prices, discounted cash flows or the value of the underlying collateral.
- Classifying all non-impaired large balance loans based on credit risk ratings and allocating an allowance for loan losses based on appropriate factors, including recent loss history for similar loans.
- Identifying all smaller balance homogeneous loans for evaluation collectively under the provisions of Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" (Statement 5). In general, these loans include residential mortgages, consumer loans, installment loans, smaller balance commercial loans and mortgages and lease receivables.
- Statement 5 loans are segmented into groups with similar characteristics and an allowance for loan losses is allocated to each segment based on recent loss history and other relevant information.
- Reviewing the results to determine the appropriate balance of the allowance for loan losses. This review gives additional consideration to factors such as the mix of loans in the portfolio, the balance of the allowance relative to total loans and non-performing assets, trends in the overall risk profile of the portfolio, trends in delinquencies and non-accrual loans and local and national economic conditions.
- An unallocated allowance is maintained to recognize the inherent imprecision in estimating and measuring loss exposure.
- Documenting the results of its review in accordance with SAB 102.

The allowance review methodology is based on information known at the time of the review. Changes in factors underlying the assessment could have a material impact on the amount of the allowance that is necessary and the amount of provision to be charged against earnings. Such changes could impact future results.

Accounting for Business Combinations – The Corporation accounts for all business acquisitions using the purchase method of accounting as required by Statement of Financial Accounting Standards No. 141, "Business Combinations" (Statement 141). Purchase accounting requires the purchase price to be allocated to the estimated fair values of the assets acquired and liabilities assumed. It also requires assessing the existence of and, if necessary, assigning a value to certain intangible assets. The remaining excess purchase price over the fair value of net assets acquired is recorded as goodwill.

The purchase price is established as the value of securities issued for the acquisition, cash consideration paid and certain acquisition-related expenses. The fair values of assets acquired and liabilities assumed are typically established through appraisals, observable market values or discounted cash flows. Management has engaged independent third-party valuation experts to assist in valuing certain assets, particularly intangibles. Other assets and liabilities are generally valued using the Corporation's internal asset/liability modeling system. The assumptions used and the final valuations, whether prepared internally or by a third party, are reviewed by

management. Due to the complexity of purchase accounting, final determinations of values can be time consuming and, occasionally, amounts included in the Corporation's consolidated balance sheets and consolidated statements of income are based on preliminary estimates of value.

Goodwill and Intangible Assets – Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (Statement 142) addresses the accounting for goodwill and intangible assets subsequent to acquisition. Intangible assets are amortized over their estimated lives. Some intangible assets have indefinite lives and are, therefore, not amortized. All intangible assets must be evaluated for impairment if certain events occur. Any impairment write-downs are recognized as expense in the consolidated income statement.

Goodwill is not amortized to expense, but is evaluated at least annually for impairment. The Corporation completes its annual goodwill impairment test as of October 31st of each year. The Corporation tests for impairment by first allocating its goodwill and other assets and liabilities, as necessary, to defined reporting units. A fair value is then determined for each reporting unit. If the fair values of the reporting units exceed their book values, no write-down of the recorded goodwill is necessary. If the fair values are less than the book values, an additional valuation procedure is necessary to assess the proper carrying value of the goodwill. The Corporation determined that no impairment write-offs were necessary during 2005, 2004 and 2003.

Business 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, 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 in the future.

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 impairment test between annual tests is necessary. Such events may include adverse changes in legal factors or in the business climate, adverse actions by a regulator, unauthorized competition, the loss of key employees, or similar events. The Corporation has not performed an interim goodwill impairment test during the past three years as no such events have occurred. However, such an interim test could be necessary in the future.

Income Taxes – The provision for income taxes is based upon income before income taxes, adjusted for the effect of certain tax-exempt income and non-deductible expenses. 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 from future taxable income. If any such assets are not likely to be recovered, a valuation allowance must be recognized. The Corporation has determined that a valuation allowance is not required for deferred tax assets as of December 31, 2005, except in the case of deferred tax benefits related to state income tax net operating losses. 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 financial statements. See also Note K, "Income Taxes", in the Notes to Consolidated Financial Statements.

Recent Accounting Pronouncements

Note A, "Summary of Significant Accounting Policies", in the Notes to Consolidated Financial Statements discusses the expected impact of recently issued accounting standards adopted by the Corporation.

MARKET RISK

Market risk is the exposure to economic loss that arises from changes in the values of certain financial instruments. The types of market risk exposures generally faced by financial institutions include interest rate risk, equity market price risk, foreign currency risk and commodity price risk. Due to the nature of its operations, only equity market price risk and interest rate risk are significant to the Corporation.

Equity Market Price Risk
Equity market price risk is the risk that changes in the values of equity investments could have a material impact on the financial position or results of operations of the Corporation. The Corporation's equity investments consist of common stocks of publicly traded financial institutions, U.S. Government sponsored agency stocks and money market mutual funds. The equity investments most susceptible to equity market price risk are the financial institutions stocks, which had a cost basis of approximately $72.6 million and a fair value of $71.0 million at December 31, 2005. Gross unrealized gains in this portfolio were approximately $2.0 million at December 31, 2005.

Although the carrying value of the financial institutions stocks accounted only for 0.6% of the Corporation's total assets, any unrealized gains in the portfolio represent a potential source of revenue. The Corporation has a history of realizing gains from this portfolio and, if values were to decline more significantly than the current year, this revenue could materially be impacted.

Management continuously monitors the fair value of its equity investments and evaluates current market conditions and operating results of the companies. Periodic sale and purchase decisions are made based on this monitoring process. None of the Corporation's equity securities are classified as trading. Future cash flows from these investments are not provided in the table on page 31 as such investments do not have maturity dates.

The Corporation has evaluated, based on existing accounting guidance, whether any unrealized losses on individual equity investments constituted "other-than-temporary" impairment, which would require a write-down through a charge to earnings. Based on the results of such evaluations, the Corporation recorded write-downs of $65,000 in 2005, $137,000 in 2004 and $3.3 million in 2003 for specific equity securities which were deemed to exhibit other-than-temporary impairment in value. Through December 31, 2005, gains of approximately $2.5 million had been realized on the sale of investments previously written down and, as of December 31, 2005, the impaired securities still held in the portfolio had recovered approximately $286,000 of the original write-down amount. Additional impairment charges may be necessary depending upon the performance of the equity markets in general and the performance of the individual investments held by the Corporation. See also Note C, "Investment Securities", in the Notes to Consolidated Financial Statements.

In addition to the risk of changes in the value of its equity portfolio, the Corporation's investment management and trust services revenue could also be impacted by fluctuations in the securities markets. A portion of the Corporation's trust revenue is based on the value of the underlying investment portfolios. If securities markets contract, the Corporation's revenue could be negatively impacted. In addition, the ability of the Corporation to sell its brokerage services is dependent, in part, upon consumers' level of confidence in the outlook for rising securities prices.

Interest Rate Risk, Asset/Liability Management and Liquidity
Interest rate risk creates exposure in two primary areas. First, changes in rates have an impact on the Corporation's liquidity position and could affect its ability to meet obligations and continue to grow. Second, movements in interest rates can create fluctuations in the Corporation's net interest income and changes in the economic value of its equity.

The Corporation employs various management techniques to minimize its exposure to interest rate risk. An Asset/Liability Management Committee (ALCO), consisting of key financial and senior management personnel, meets on a weekly basis. The ALCO is responsible for reviewing the interest rate sensitivity position of the Corporation, approving asset and liability management policies, and overseeing the formulation and implementation of strategies regarding balance sheet positions and earnings. The primary goal of asset/liability management is to address the liquidity and net interest income risks noted above.

From a liquidity standpoint, the Corporation must maintain a sufficient level of liquid assets to meet the ongoing cash flow requirements of customers, who, as depositors, may want to withdraw funds or who, as borrowers, need credit availability. Liquidity sources are found on both sides of the balance sheet. Liquidity is provided on a continuous basis through scheduled and unscheduled principal reductions and interest payments on outstanding loans and investments. Liquidity is also provided through the availability of deposits and borrowings.

The Corporation's sources and uses of cash were discussed in general terms in the "Overview" section of Management's Discussion. The consolidated statements of cash flows provide additional information. The Corporation generated $146.5 million in cash from operating activities during 2005, mainly due to net income. Investing activities resulted in a net cash outflow of $588.5 million, compared to a net cash inflow of $184.9 million in 2004. In 2005, reinvestments in the investment securities portfolio and the net increase in the loan portfolio exceeded proceeds from maturities and sales of investment securities. In 2004, funds provided by investment maturities and sales of investment securities were greater than the reinvestments in investment securities and the net increase in the loan portfolio. Financing activities resulted in net cash proceeds of $532.0 million in 2005, compared to a net cash usage of $384.7 million in 2004 as net funds were provided by increases in deposits, primarily time deposits as a result of increasing rates, as well as short-term borrowings and long-term debt. In 2004, funds provided by maturing investments were used to reduce short-term borrowings.

Liquidity must also be managed at the Fulton Financial Corporation parent company level. For safety and soundness reasons, banking regulations limit the amount of cash that can be transferred from subsidiary banks to the Parent Company in the form of loans and dividends. Generally, these limitations are based on the subsidiary banks' regulatory capital levels and their net income. Prior to 2004, the Parent Company had been able to meet its cash needs through normal, allowable dividends and loans. However, as a result of increased acquisition activity and stock repurchase plans, the Parent Company's cash needs increased, requiring additional sources of funds.

In 2005, the Corporation issued $100.0 million of ten-year subordinated notes, which mature April 1, 2015 and carry a fixed rate of 5.35%. Interest is paid semi-annually, commencing in October 2005. In 2004, the Parent Company entered into a revolving line of credit agreement with an unaffiliated bank. Under the terms of the agreement, the Parent Company can borrow up to $50.0 million with interest calculated at the one-month London Interbank Offering Rate (LIBOR) plus 0.27%. The credit agreement requires the Corporation to maintain certain financial ratios related to capital strength and earnings. As of December 31, 2005 there were no borrowings outstanding under the agreement. The Corporation was in compliance with all required covenants under the credit agreement as of December 31, 2005.

In January 2006, the Corporation purchased all of the common stock of a new Delaware business trust, Fulton Capital Trust I, which was formed for the purpose of issuing $150.0 million of trust preferred securities at an effective rate of approximately 6.50%. In connection with this transaction the Parent Company issued $154.6 million of junior subordinated deferrable interest debentures to the trust. These debentures carry the same rate and mature on February 1, 2036.

These borrowings, most notably the revolving line of credit agreement, supplement the liquidity available from subsidiaries through dividends and provide some flexibility in Parent Company cash management. Management continues to monitor the liquidity and capital needs of the Parent Company and will implement appropriate strategies, as necessary, to remain well-capitalized and to meet its cash needs.

In addition to its normal recurring and operating cash needs, the Parent Company also paid cash for a portion of the Columbia Bancorp acquisition, which was completed on February 1, 2006. Based on the terms of the merger agreement, the Parent Company paid approximately $150 million in cash to consummate the acquisition. For further details, see Note Q, "Mergers and Acquisitions", in the Notes to Consolidated Financial Statements.

At December 31, 2005, liquid assets (defined as cash and due from banks, short-term investments, Federal funds sold, mortgages available for sale, securities available for sale, and non-mortgage-backed securities held to maturity due in one year or less) totaled $3.2 billion, or 25.5% of total assets. This compares to $3.0 billion, or 26.5% of total assets, at December 31, 2004.

The following tables present the maturities of investment securities at December 31, 2005 and the weighted average yields of such securities (calculated based on historical cost):

HELD TO MATURITY (at amortized cost)

	MATURING							
	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(dollars in thousands)							
U.S. Government sponsored agency securities	$ -	-	$ 7,512	3.98%	$ -	-	$ -	-
State and municipal (1)	4,540	3.95	991	5.13	346	5.42	-	-
Totals	$ 4,540	3.95%	$ 8,503	4.11%	$ 346	5.42%	$ -	-
Mortgage-backed securities (2)	$ 4,869	6.16%						

AVAILABLE FOR SALE (at estimated fair value)

	MATURING							
	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(dollars in thousands)							
U.S. Government securities	$ 35,118	3.66%	$ -	-	$ -	-	$ -	-
U.S. Government sponsored agency securities	24,732	3.65	174,404	4.82	6,046	5.11	-	-
State and municipal (1)	47,341	4.99	190,300	4.57	176,450	5.18	24,896	6.98
Other securities	100	7.51	2,029	4.51	2,329	7.70	61,376	7.54
Totals	$ 107,291	4.25%	$366,733	4.69%	$184,825	5.20%	$ 86,272	7.38%
Mortgage-backed securities (2)	$1,663,234	3.84%						

(1) Weighted average yields on tax-exempt securities have been computed on a fully tax-equivalent basis assuming a tax rate of 35 percent.

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

The Corporation's investment portfolio consists mainly of mortgage-backed securities which have stated maturities that may differ from actual maturities due to borrowers' ability to prepay obligations. Cash flows from such investments are dependent upon the performance of the underlying mortgage loans, and are generally influenced by the level of interest rates. As rates increase, cash flows generally decrease as prepayments on the underlying mortgage loans decrease. As rates decrease, cash flows generally increase as prepayments increase. The Corporation invests primarily in five and seven-year balloon mortgage-backed securities to limit interest rate risk and promote liquidity.

The following table presents the approximate contractual maturity and interest rate sensitivity of certain loan types, excluding consumer loans and leases, subject to changes in interest rates as of December 31, 2005:

	One Year or Less	One Through Five Years	More Than Five Years	Total
		(in thousands)		
Commercial, financial and agricultural:				
Floating rate	$ 491,639	$ 667,365	$ 645,234	$ 1,804,238
Fixed rate	224,145	274,652	72,634	571,431
Total	$ 715,784	$ 942,017	$ 717,868	$ 2,375,669
Real-estate – mortgage:				
Floating rate	$ 516,839	$ 1,375,377	$ 1,189,013	$ 3,081,229
Fixed rate	305,984	887,971	330,481	1,524,436
Total	$ 822,823	$ 2,263,348	$ 1,519,494	$ 4,605,665
Real-estate – construction:				
Floating rate	$ 489,646	$ 140,433	$ 77,081	$ 707,160
Fixed rate	66,163	31,601	46,527	144,291
Total	$ 555,809	$ 172,034	$ 123,608	$ 851,451

From a funding standpoint, the Corporation has been able to rely over the years on a stable base of "core" deposits. Even though the Corporation has experienced notable changes in the composition and interest sensitivity of this deposit base, it has been able to rely on this base to provide needed liquidity. In addition, the Corporation issues certificates of deposits in various denominations, including jumbo time deposits, and repurchase agreements as potential sources of liquidity.

Contractual maturities of time deposits of $100,000 or more outstanding at December 31, 2005 are as follows (in thousands):

Three months or less	$ 179,168
Over three through six months	153,169
Over six through twelve months	188,586
Over twelve months	228,672
Total	$ 749,595

Each of the Corporation's subsidiary banks is a member of the FHLB and has access to FHLB overnight and term credit facilities. At December 31, 2005, the Corporation had $717.0 million in term advances from the FHLB with an additional $1.5 billion of borrowing capacity (including both short-term funding on its lines of credit and long-term borrowings). This availability, along with Federal funds lines at various correspondent banks, provides the Corporation with additional liquidity.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following table provides information about the Corporation's interest rate sensitive financial instruments. The table presents expected cash flows and weighted average rates for each significant interest rate sensitive financial instrument, by expected maturity period (dollars in thousands).

	Expected Maturity Period							Estimated
	2006	**2007**	**2008**	**2009**	**2010**	**Beyond**	**Total**	**Fair Value**
Fixed rate loans (1)	$ 756,382	$ 546,456	$ 429,512	$ 310,072	$ 201,492	$ 454,056	$ 2,697,970	$ 2,626,660
Average rate	6.20%	6.05%	6.01%	6.19%	6.33%	6.03%	6.12%	
Floating rate loans (6)	1,524,818	769,190	588,158	504,913	412,056	1,908,322	5,707,457	5,676,553
Average rate	7.41%	7.10%	7.11%	7.15%	6.77%	6.65%	7.01%	
Fixed rate investments (2)	530,372	367,649	393,745	327,122	503,492	299,766	2,422,146	2,362,579
Average rate	3.82%	3.94%	3.71%	3.71%	3.83%	4.80%	3.93%	
Floating rate investments (2)	-	314	2,319	157	588	61,170	64,548	64,318
Average rate	-	4.09%	4.54%	4.27%	5.36%	4.40%	4.41%	
Other interest-earning assets	275,310	-	-	-	-	-	275,310	275,310
Average rate	7.05%	-	-	-	-	-	7.05%	
Total	$ 3,086,882	$ 1,683,609	$ 1,413,734	$ 1,142,264	$1,117,628	$ 2,723,314	$11,167,431	$ 11,005,420
Average rate	6.46%	6.07%	5.83%	5.90%	5.36%	6.29%	6.11%	
Fixed rate deposits (3)	$ 1,916,176	$ 735,858	$ 218,553	$ 89,483	$ 109,975	$ 274,563	$ 3,344,608	$ 3,321,800
Average rate	3.31%	3.92%	3.68%	3.95%	4.44%	4.26%	3.60%	
Floating rate deposits (4)	1,846,132	290,231	240,226	240,226	233,311	2,615,166	5,465,292	5,465,292
Average rate	2.02%	0.89%	0.70%	0.70%	0.66%	0.52%	1.07%	
Fixed rate borrowings (5)	623,843	110,408	226,243	43,307	89,330	123,198	1,216,329	1,227,413
Average rate	3.14%	4.37%	4.98%	4.77%	5.92%	5.23%	4.07%	
Floating rate borrowings	939,096	-	-	-	-	1,224	940,320	940,320
Average rate	4.37%	-	-	-	-	7.66%	4.37%	
Total	$ 5,325,247	$ 1,136,497	$ 685,022	$ 373,016	$ 432,616	$ 3,014,151	$ 10,966,549	$ 10,954,825
Average rate	3.03%	3.19%	3.06%	1.95%	2.71%	1.06%	2.46%	

Assumptions:

(1) Amounts are based on contractual payments and maturities, adjusted for expected prepayments.
(2) Amounts are based on contractual maturities; adjusted for expected prepayments on mortgage-backed securities and expected call on agency and municipal securities.
(3) Amounts are based on contractual maturities of time deposits.
(4) Money market, Super NOW, NOW and savings accounts are allocated based on history of deposit flows.
(5) Amounts are based on contractual maturities of Federal Home Loan Bank advances, adjusted for possible calls.
(6) Floating rate loans include adjustable rate commercial mortgages.

The preceding table and discussion addressed the liquidity implications of interest rate risk and focused on expected cash flows from financial instruments. Expected maturities, however, do not necessarily reflect the net interest income impact of interest rate changes. Certain financial instruments, such as adjustable rate loans, have repricing periods that differ from expected cash flows. Fair market value adjustments related to acquisitions are not included in the preceding table.

In addition to the interest rate sensitive instruments included in the preceding table, the Corporation also had interest rate swaps with a notional amount of $280 million as of December 31, 2005. These swaps were used to hedge certain long-term fixed rate certificates of deposit. The terms of the certificates of deposit and the interest rate swaps mirror each other and were committed to simultaneously. Under the terms of the agreements, the Corporation is the fixed rate receiver and the floating rate payer (generally tied to the three month London Interbank Offering Rate, or LIBOR, a common index used for setting rates between financial institutions). The

combination of the interest rate swaps and the issuance of the certificates of deposit generates long-term floating rate funding for the Corporation. As of December 31, 2005, the Corporation's weighted average receive and pay rates were 4.19% and 4.34%, respectively.

The Corporation entered into a forward-starting interest rate swap with a notional amount of $150 million in October 2005 in anticipation of the January 2006 issuance of trust preferred securities. This was accounted for as a cash flow hedge as it hedges the variability of interest payments attributable to changes in interest rates on the forecasted issuance of fixed-rate debt. The total amount paid in January 2006 as settlement of the forward-starting interest rate swap was $5.5 million.

The Corporation uses three complementary methods to measure and manage interest rate risk. They are static gap analysis, simulation of earnings, and estimates of economic value of equity.

Static gap provides a measurement of repricing risk in the Corporation's balance sheet as of a point in time. This measurement is accomplished through stratification of the Corporation's assets and liabilities into repricing periods. The sum of assets and liabilities in each of these periods are compared for mismatches within that maturity segment. Core deposits having non-contractual maturities are placed into repricing periods based upon historical balance performance. Repricing for mortgage loans and for mortgage-backed securities includes the effect of expected cash flows. Estimated prepayment effects are applied to these balances based upon industry projections for prepayment speeds. The Corporation's policy limits the cumulative six-month gap to plus or minus 15% of total earning assets. The cumulative six-month gap as of December 31, 2005 was negative 1.18%. The cumulative six-month ratio of rate sensitive assets to rate sensitive liabilities (RSA/RSL) as of December 31, 2005 was 0.97. The following is a summary of the interest sensitivity gaps for six and twelve month intervals as of December 31, 2005:

	Six Months	Twelve Months
Cumulative RSA/RSL...........	0.97	0.95
Cumulative GAP (% of earning assets)......................	(1.18)%	(2.69)%

Simulation of net interest income is performed for the next twelve-month period. A variety of interest rate scenarios are used to measure the effects of sudden and gradual movements upward and downward in the yield curve. These results are compared to the results obtained in a flat or unchanged interest rate scenario. Simulation of earnings is used primarily to measure the Corporation's short-term earnings exposure to rate movements. The Corporation's policy limits the potential exposure of net interest income to 10% of the base case net interest income for every 100 basis point "shock" in interest rates. A "shock" is an immediate upward or downward movement of short-term interest rates with changes across the yield curve based upon industry projections. The following table summarizes the expected impact of interest rate shocks on net interest income:

Rate Shock	Annual change in net interest income	% Change
+300 bp	+ $11.0 million	+2.6%
+200 bp	+ $7.5 million	+1.8%
+100 bp	+ $3.9 million	+0.9%
-100 bp	- $10.6 million	-2.6%
-200 bp	- $21.6 million	-5.2%
-300 bp	- $39.1 million	-9.4%

Economic value of equity estimates the discounted present value of asset cash flows and liability cash flows. Discount rates are based upon market prices for like assets and liabilities. Upward and downward shocks of interest rates are used to determine the comparative effect of such interest rate movements relative to the unchanged environment. This measurement tool is used primarily to evaluate the longer-term repricing risks and options in the Corporation's balance sheet. A policy limit of 10% of economic equity may

be at risk for every 100 basis point "shock" movement in interest rates. The following table summarizes the expected impact of interest rate shocks on economic value of equity:

Rate Shock	Change in economic value of equity	% Change
+300 bp	+ $18.5 million	+1.1%
+200 bp	+ $14.5 million	+0.9%
+100 bp	+ $7.7 million	+0.5%
-100 bp	- $29.3 million	-1.8%
-200 bp	- $88.5 million	-5.5%
-300 bp	- $174.4 million	-10.8%

As with any modeling system, the results of the static gap and simulation of net interest income and economic value of equity are a function of the assumptions and projections built into the model. The actual behavior of the financial instruments could differ from these assumptions and projections.

Common Stock

As of December 31, 2005, the Corporation had 157.0 million shares of $2.50 par value common stock outstanding held by 51,000 holders of record. The common stock of the Corporation is traded on the national market system of the National Association of Securities Dealers Automated Quotation System (NASDAQ) under the symbol FULT.

The following table presents the quarterly high and low prices of the Corporation's common stock and per-share cash dividends declared for each of the quarterly periods in 2005 and 2004. Per-share amounts have been retroactively adjusted to reflect the effect of stock dividends and splits.

	Price Range		Per-Share
	High	Low	Dividend
2005			
First Quarter	**$ 18.82**	**$ 16.80**	**$ 0.132**
Second Quarter	**18.00**	**16.46**	**0.145**
Third Quarter	**18.90**	**16.20**	**0.145**
Fourth Quarter	**17.75**	**15.61**	**0.145**
2004			
First Quarter	$ 17.36	$ 15.89	$ 0.122
Second Quarter	17.31	15.31	0.132
Third Quarter	17.52	16.00	0.132
Fourth Quarter	18.88	16.84	0.132

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CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per-share data)

	December 31	
Assets	**2005**	2004
Cash and due from banks	**$ 368,043**	$ 278,065
Interest-bearing deposits with other banks	**31,404**	4,688
Federal funds sold	**528**	32,000
Loans held for sale	**243,378**	209,504
Investment securities:		
Held to maturity (estimated fair value of $18,317 in 2005 and $25,413 in 2004)	**18,258**	25,001
Available for sale	**2,543,887**	2,424,858
Loans, net of unearned income	**8,424,728**	7,533,915
Less: Allowance for loan losses	**(92,847)**	(89,627)
Net Loans	**8,331,881**	7,444,288
Premises and equipment	**170,254**	146,911
Accrued interest receivable	**53,261**	40,633
Goodwill	**418,735**	364,019
Intangible assets	**29,687**	25,303
Other assets	**192,239**	164,878
Total Assets	**$ 12,401,555**	$ 11,160,148
Liabilities		
Deposits:		
Noninterest-bearing	**$ 1,672,637**	$ 1,507,799
Interest-bearing	**7,132,202**	6,387,725
Total Deposits	**8,804,839**	7,895,524
Short-term borrowings:		
Federal funds purchased	**939,096**	676,922
Other short-term borrowings	**359,866**	517,602
Total Short-Term Borrowings	**1,298,962**	1,194,524
Accrued interest payable	**38,604**	27,279
Other liabilities	**115,834**	114,498
Federal Home Loan Bank advances and long-term debt	**860,345**	684,236
Total Liabilities	**11,118,584**	9,916,061
Shareholders' Equity		
Common stock, $2.50 par value, 600 million shares authorized, 172.3 million shares issued in 2005 and 167.8 million shares issued in 2004	**430,827**	335,604
Additional paid-in capital	**996,708**	1,018,403
Retained earnings	**138,529**	60,924
Accumulated other comprehensive loss	**(42,285)**	(10,133)
Treasury stock (15.3 million shares in 2005 and 10.7 million shares in 2004), at cost	**(240,808)**	(160,711)
Total Shareholders' Equity	**1,282,971**	1,244,087
Total Liabilities and Shareholders' Equity	**$ 12,401,555**	$ 11,160,148

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except per-share data)

	Year Ended December 31		
Interest Income	**2005**	2004	2003
Loans, including fees	**$ 517,443**	$ 394,765	$ 340,375
Investment securities:			
Taxable	**75,150**	76,792	77,450
Tax-exempt	**12,114**	9,553	10,436
Dividends	**4,564**	4,023	4,076
Loans held for sale	**14,940**	8,407	2,953
Other interest income	**1,586**	103	241
Total Interest Income	**625,797**	493,643	435,531
Interest Expense			
Deposits	**140,774**	89,779	94,198
Short-term borrowings	**34,414**	15,182	7,373
Long-term debt	**38,031**	31,033	29,523
Total Interest Expense	**213,219**	135,994	131,094
Net Interest Income	**412,578**	357,649	304,437
Provision for Loan Losses	**3,120**	4,717	9,705
Net Interest Income After Provision for Loan Losses	**409,458**	352,932	294,732
Other Income			
Investment management and trust services	**35,669**	34,817	33,898
Service charges on deposit accounts	**40,198**	39,451	38,500
Other service charges and fees	**24,200**	20,494	18,860
Gain on sale of mortgage loans	**25,468**	19,262	18,965
Investment securities gains	**6,625**	17,712	19,853
Other	**12,108**	7,128	4,294
Total Other Income	**144,268**	138,864	134,370
Other Expenses			
Salaries and employee benefits	**181,889**	166,026	138,094
Net occupancy expense	**29,275**	23,813	19,896
Equipment expense	**11,938**	10,769	10,505
Data processing	**12,395**	11,430	11,532
Advertising	**8,823**	6,943	6,039
Intangible amortization	**5,311**	4,726	2,059
Other	**66,660**	53,808	45,526
Total Other Expenses	**316,291**	277,515	233,651
Income Before Income Taxes	**237,435**	214,281	195,451
Income Taxes	**71,361**	64,673	59,084
Net Income	**$ 166,074**	$ 149,608	$ 136,367
Per-Share Data:			
Net Income (Basic)	**$ 1.06**	$ 1.00	$ 0.97
Net Income (Diluted)	**1.05**	0.99	0.96
Cash Dividends	**0.567**	0.518	0.475

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

	Number of Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	(dollars in thousands)						
Balance at January 1, 2003	139,338,000	$ 259,943	$ 493,538	$ 127,128	$ 34,801	$ (50,531)	$ 864,879
Comprehensive Income:							
Net Income				136,367			136,367
Unrealized loss on securities (net of $5.2 million tax effect)					(9,630)		(9,630)
Less - reclassification adjustment for gains included in net income (net of $6.9 million tax expense)					(12,904)		(12,904)
Total comprehensive income							113,833
Stock dividend - 5%		12,998	79,491	(92,526)			(37)
Stock issued, including related tax benefits	707,000		(3,605)			9,458	5,853
Stock-based compensation awards			2,092				2,092
Stock issued for acquisition of Premier Bancorp, Inc.	6,058,000	11,539	76,639				88,178
Acquisition of treasury stock	(4,018,000)					(59,699)	(59,699)
Cash dividends - $0.475 per share				(66,782)			(66,782)
Balance at December 31, 2003	142,085,000	$ 284,480	$ 648,155	$ 104,187	$ 12,267	$ (100,772)	$ 948,317
Comprehensive Income:							
Net Income				149,608			149,608
Unrealized loss on securities (net of $5.6 million tax effect)					(10,329)		(10,329)
Less - reclassification adjustment for gains included in net income (net of $6.2 million tax expense)					(11,513)		(11,513)
Minimum pension liability adjustment (net of $300,000 tax effect)					(558)		(558)
Total comprehensive income							127,208
Stock dividend - 5%		15,278	100,247	(115,615)			(90)
Stock issued, including related tax benefits	1,310,000		(9,141)			19,027	9,886
Stock-based compensation awards			3,900				3,900
Stock issued for acquisition of Resource Bankshares Corporation	11,287,000	21,498	164,365				185,863
Stock issued for acquisition of First Washington FinancialCorp	7,174,000	14,348	110,877				125,225
Acquisition of treasury stock	(4,706,000)					(78,966)	(78,966)
Cash dividends - $0.518 per share				(77,256)			(77,256)
Balance at December 31, 2004	**157,150,000**	**$ 335,604**	**$ 1,018,403**	**$ 60,924**	**$ (10,133)**	**$ (160,711)**	**$ 1,244,087**
Comprehensive Income:							
Net Income				**166,074**			**166,074**
Unrealized loss on securities (net of $14.1 million tax effect)					**(26,219)**		**(26,219)**
Unrealized loss on derivative financial instruments (net of $1.2 million tax effect)					**(2,185)**		**(2,185)**
Less - reclassification adjustment for gains included in net income (net of $2.3 million tax expense)					**(4,306)**		**(4,306)**
Minimum pension liability adjustment (net of $300,000 tax effect)					**558**		**558**
Total comprehensive income							**133,922**
5-for-4 stock split paid in the form of a 25 % stock dividend		**84,046**	**(84,114)**				**(68)**
Stock issued, including related tax benefits	**1,120,000**	**1,809**	**4,179**			**5,071**	**11,059**
Stock-based compensation awards			**1,041**				**1,041**
Stock issued for acquisition of SVB Financial Services, Inc.	**3,747,000**	**9,368**	**57,199**				**66,567**
Acquisition of treasury stock	**(5,000,000)**					**(85,168)**	**(85,168)**
Cash dividends - $0.567 per share				**(88,469)**			**(88,469)**
Balance at December 31, 2005	**157,017,000**	**$ 430,827**	**$ 996,708**	**$ 138,529**	**$ (42,285)**	**$ (240,808)**	**$ 1,282,971**

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31		
	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	**$ 166,074**	$ 149,608	$ 136,367
Adjustments to reconcile net income to net cash provided by Operating Activities:			
Provision for loan losses	**3,120**	4,717	9,705
Depreciation and amortization of premises and equipment	**14,338**	12,409	12,379
Net amortization of investment security premiums	**5,158**	9,906	19,243
Deferred income tax expense	**990**	816	4,465
Gain on sale of investment securities	**(6,625)**	(17,712)	(19,853)
Gain on sale of loans	**(25,468)**	(19,262)	(18,965)
Proceeds from sales of loans held for sale	**2,307,004**	1,475,000	871,447
Originations of loans held for sale	**(2,315,410)**	(1,456,465)	(815,291)
Amortization of intangible assets	**5,311**	4,726	2,059
Stock-based compensation expense	**1,041**	3,900	2,092
(Increase) decrease in accrued interest receivable	**(10,501)**	22	11,333
(Increase) decrease in other assets	**(1,530)**	6,895	(14,595)
Increase (decrease) in accrued interest payable	**11,008**	(759)	(6,136)
(Decrease) increase in other liabilities	**(8,019)**	3,089	(7,370)
Total adjustments	**(19,583)**	27,282	50,513
Net cash provided by operating activities	**146,491**	176,890	186,880
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of securities available for sale	**143,806**	235,332	521,520
Proceeds from maturities of securities held to maturity	**10,846**	8,870	18,146
Proceeds from maturities of securities available for sale	**666,060**	816,834	1,543,992
Purchase of securities held to maturity	**(4,403)**	(11,402)	(8,514)
Purchase of securities available for sale	**(861,897)**	(269,776)	(2,445,592)
Decrease (increase) in short-term investments	**78,265**	(9,188)	19,248
Net increase in loans	**(589,053)**	(577,403)	(485,332)
Net cash (paid for) received from acquisitions	**(3,791)**	7,810	17,222
Net purchase of premises and equipment	**(28,336)**	(16,161)	(4,730)
Net cash (used in) provided by investing activities	**(588,503)**	184,916	(824,040)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in demand and savings deposits	**35,153**	293,331	347,665
Net increase (decrease) in time deposits	**400,672**	(174,453)	(295,760)
Addition to long-term debt	**319,606**	45,000	90,000
Repayment of long-term debt	**(168,207)**	(63,509)	(157,360)
Decrease (increase) in short-term borrowings	**104,438**	(338,845)	757,964
Dividends paid	**(85,495)**	(74,802)	(64,628)
Net proceeds from issuance of common stock	**10,991**	7,537	5,087
Acquisition of treasury stock	**(85,168)**	(78,966)	(59,699)
Net cash provided by (used in) financing activities	**531,990**	(384,707)	623,269
Net Increase (Decrease) in Cash and Due From Banks	**89,978**	(22,901)	(13,891)
Cash and Due From Banks at Beginning of Year	**278,065**	300,966	314,857
Cash and Due From Banks at End of Year	**$ 368,043**	$ 278,065	$ 300,966
Supplemental Disclosures of Cash Flow Information			
Cash paid during the year for:			
Interest	**$ 202,211**	$ 136,753	$ 137,230
Income taxes	**60,539**	54,457	48,924

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business: Fulton Financial Corporation (Parent Company) is a multi-bank financial holding company which provides a full range of banking and financial services to businesses and consumers through its wholly owned banking subsidiaries: Fulton Bank, Lebanon Valley Farmers Bank, Swineford National Bank, Lafayette Ambassador Bank, FNB Bank N.A., Hagerstown Trust, Delaware National Bank, The Bank, The Peoples Bank of Elkton, Skylands Community Bank, Premier Bank, Resource Bank, First Washington State Bank and Somerset Valley Bank as well as its financial services subsidiaries: Fulton Financial Advisors, N.A., and Fulton Insurance Services Group, Inc. In addition, the Parent Company owns the following other non-bank subsidiaries: Fulton Financial Realty Company, Fulton Reinsurance Company, LTD, Central Pennsylvania Financial Corp., FFC Management, Inc. and FFC Penn Square, Inc. Collectively, the Parent Company and its subsidiaries are referred to as the Corporation.

The Corporation's primary sources of revenue are interest income on loans and investment securities and fee income on its products and services. Its expenses consist of interest expense on deposits and borrowed funds, provision for loan losses, other operating expenses and income taxes. The Corporation’s primary competition is other financial services providers operating in its region. Competitors also include financial services providers located outside the Corporation’s geographical market as a result of the growth in electronic delivery systems. The Corporation is subject to the regulations of certain Federal and state agencies and undergoes periodic examinations by such regulatory authorities.

The Corporation offers, through its banking subsidiaries, a full range of retail and commercial banking services throughout central and eastern Pennsylvania, Maryland, Delaware, New Jersey and Virginia. Industry diversity is the key to the economic well being of these markets and the Corporation is not dependent upon any single customer or industry.

Basis of Financial Statement Presentation: The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States and include the accounts of the Parent Company and all wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements as well as revenues and expenses during the period. Actual results could differ from those estimates.

Investments: Debt securities are classified as held to maturity at the time of purchase when the Corporation has both the intent and ability to hold these investments until they mature. Such debt securities are carried at cost, adjusted for amortization of premiums and accretion of discounts using the effective yield method. The Corporation does not engage in trading activities, however, since the investment portfolio serves as a source of liquidity, most debt securities and all marketable equity securities are classified as available for sale. Securities available for sale are carried at estimated fair value with the related unrealized holding gains and losses reported in shareholders' equity as a component of other comprehensive income, net of tax. Realized security gains and losses are computed using the specific identification method and are recorded on a trade date basis. Securities are evaluated periodically to determine whether a decline in their value is other than temporary. Declines in value that are determined to be other than temporary are recorded as realized losses.

Loans and Revenue Recognition: Loan and lease financing receivables are stated at their principal amount outstanding, except for loans held for sale which are carried at the lower of aggregate cost or market value. Interest income on loans is accrued as earned. Unearned income on lease financing receivables is recognized on a basis which approximates the effective yield method. Premiums and discounts on purchased loans are amortized as an adjustment to interest income using the effective yield method.

Accrual of interest income is generally discontinued when a loan becomes 90 days past due as to principal or interest, except for adequately collateralized residential mortgage loans. When interest accruals are discontinued, unpaid interest credited to income is reversed. Non-accrual loans are restored to accrual status when all delinquent principal and interest become current or the loan is considered secured and in the process of collection.

Derivative Financial Instruments: As of December 31, 2005, interest rate swaps with a notional amount of $280 million were used to hedge certain long-term fixed rate certificates of deposit. The terms of the certificates of deposit and the interest rate swaps mirror

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each other and were committed to simultaneously. Under the terms of the swap agreements, the Corporation is the fixed rate receiver and the floating rate payer (generally tied to the three month London Interbank Offering Rate, or LIBOR, a common index used for setting rates between financial institutions). The interest rate swaps are classified as fair value hedges and both the interest rate swaps and the certificates of deposit are recorded at fair value. Changes in the fair values during the period are recorded in interest expense. For interest rate swaps accounted for as a fair value hedge, ineffectiveness is the difference between the changes in the fair value of the interest rate swap and the hedged item, in this case certificates of deposit. The Corporation's analysis of hedge effectiveness indicated they were 97.1% effective as of December 31, 2005. As a result, a $110,000 charge to expense was recorded for the year ended December 31, 2005, compared to a $14,000 favorable adjustment to income for the year ended December 31, 2004.

The Corporation entered into a forward-starting interest rate swap with a notional amount of $150 million in October 2005 in anticipation of the issuance of $150 million of trust preferred securities in January 2006. This was accounted for as a cash flow hedge as it hedges the variability of interest payments attributable to changes in interest rates on the forecasted issuance of fixed-rate debt. The Corporation's analysis indicated the hedge was effective as of December 31, 2005. Therefore, during the year ended December 31, 2005, the Corporation recorded a $2.2 million other comprehensive loss (net of $1.2 million tax effect) to recognize the fair value change of this derivative. The Corporation settled this derivative in January 2006 for a total of $5.5 million. The total amount recorded to other comprehensive loss will be amortized to interest expense over the life of the related securities using the effective interest method. The total amount of net losses in accumulated other comprehensive income that will be reclassified into earnings in 2006 is expected to be approximately $170,000.

Loan Origination Fees and Costs: Loan origination fees and the related direct origination costs are offset and the net amount is deferred and amortized over the life of the loan using the effective interest method as an adjustment to interest income. For mortgage loans sold, the net amount is included in gain or loss upon the sale of the related mortgage loan.

Allowance for Loan Losses: The allowance for loan losses is increased by charges to expense and decreased by charge-offs, net of recoveries. Management's periodic evaluation of the adequacy of the allowance for loan losses is based on the Corporation's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' ability to repay, the estimated fair value of the underlying collateral, and current economic conditions. Management believes that the allowance for loan losses is adequate, however, future changes to the allowance may be necessary based on changes in any of these factors.

The allowance for loan losses consists of two components – specific allowances allocated to individually impaired loans, as defined by the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan" (Statement 114), and allowances calculated for pools of loans under Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" (Statement 5).

Commercial loans and commercial mortgages are reviewed for impairment under Statement 114 if they are both greater than $100,000 and are rated less than "satisfactory" based upon the Corporation's internal credit-rating process. A satisfactory loan does not present more than a normal credit risk based on the strength of the borrower's management, financial condition and trends, and the type and sufficiency of underlying collateral. It is expected that the borrower will be able to satisfy the terms of the loan agreement.

A loan is considered to be impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or at the loan's observable market price or fair value of the collateral if the loan is collateral dependent. An allowance is allocated to an impaired loan if the carrying value exceeds the calculated estimated fair value.

All loans not reviewed for impairment are evaluated under Statement 5. In addition to commercial loans and mortgages not meeting the impairment evaluation criteria discussed above, these include residential mortgages, consumer loans, installment loans and lease receivables. These loans are segmented into groups with similar characteristics and an allowance for loan losses is allocated to each segment based on quantitative factors such as recent loss history and qualitative factors such as economic conditions and trends.

Loans and lease financing receivables deemed to be a loss are written off through a charge against the allowance for loan losses. Consumer loans are generally charged off when they become 120 days past due if they are not adequately secured by real estate. All other loans are evaluated for possible charge-off when they reach 90 days past due. Such loans or portions thereof are charged-off

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

when it is probable that the balance will not be collected, based on the ability of the borrower to pay and the value of the underlying collateral. Recoveries of loans previously charged off are recorded as an increase to the allowance for loan losses. Past due status is determined based on contractual due dates for loan payments.

Lease financing receivables include both open and closed end leases for the purchase of vehicles and equipment. Residual values are set at the inception of the lease and are reviewed periodically for impairment. If the impairment is considered to be other-than-temporary, the resulting reduction in the net investment in the lease is recognized as a loss in the period.

Premises and Equipment: Premises and equipment are stated at cost, less accumulated depreciation and amortization. The provision for depreciation and amortization is generally computed using the straight-line method over the estimated useful lives of the related assets, which are a maximum of 50 years for buildings and improvements and eight years for furniture and equipment. Leasehold improvements are amortized over the shorter of 15 years or the noncancelable lease term. Interest costs incurred during the construction of major bank premises are capitalized.

Other Real Estate Owned: Assets acquired in settlement of mortgage loan indebtedness are recorded as other real estate owned and are included in other assets initially at the lower of the estimated fair value of the asset less estimated selling costs or the carrying amount of the loan. Costs to maintain the assets and subsequent gains and losses on sales are included in other income and other expense.

Mortgage Servicing Rights: The estimated fair value of mortgage servicing rights (MSR's) related to loans sold is recorded as an asset upon the sale of such loans. MSR's are amortized as a reduction to servicing income over the estimated lives of the underlying loans. In addition, MSR's are evaluated quarterly for impairment based on prepayment experience and, if necessary, additional amortization is recorded.

Income Taxes: The provision for income taxes is based upon income before income taxes, adjusted primarily for the effect of tax-exempt income and net credits received from investments in low income housing partnerships. 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. Deferred income tax expenses or benefits are based on the changes in the deferred tax asset or liability from period to period.

Stock-Based Compensation: The Corporation accounts for its stock-based compensation awards in accordance with Statement of Financial Accounting Standards No. 123R, "Share-Based Payment" (Statement 123R). Statement 123R requires public companies to recognize compensation expense related to stock-based compensation awards in their income statements.

Net Income Per Share: The Corporation's basic net income per share is calculated as net income divided by the weighted average number of shares outstanding. For diluted net income per share, net income is divided by the weighted average number of shares outstanding plus the incremental number of shares added as a result of converting common stock equivalents, calculated using the treasury stock method. The Corporation's common stock equivalents consist of outstanding stock options. Excluded from the calculation were anti-dilutive options totaling 1.1 million in 2005.

A reconciliation of the weighted average shares outstanding used to calculate basic net income per share and diluted net income per share follows. There were no adjustments to net income to arrive at diluted net income per share.

	2005	2004	2003
		(in thousands)	
Weighted average shares outstanding (basic)	**156,413**	149,294	140,335
Impact of common stock equivalents	**1,930**	1,614	1,176
Weighted average shares outstanding (diluted)	**158,343**	150,908	141,511

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Disclosures about Segments of an Enterprise and Related Information: The Corporation does not have any operating segments which require disclosure of additional information. While the Corporation owns fourteen separate banks, each engages in similar activities, provides similar products and services, and operates in the same general geographical area. The Corporation's non-banking activities are immaterial and, therefore, separate information has not been disclosed.

Financial Guarantees: Financial guarantees, which consist primarily of standby and commercial letters of credit, are accounted for by recognizing a liability equal to the fair value of the guarantees and crediting the liability to income over the term of the guarantee. Fair value is estimated using the fees currently charged to enter into similar agreements with similar terms.

Business Combinations and Intangible Assets: The Corporation accounts for its acquisitions using the purchase accounting method as required by Statement of Financial Accounting Standards No. 141, "Business Combinations". Purchase accounting requires the total purchase price to be allocated to the estimated fair values of assets and liabilities acquired, including certain intangible assets that must be recognized. Typically, this results in a residual amount in excess of the net fair values, which is recorded as goodwill.

As required by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (Statement 142), goodwill is not amortized to expense, but is tested for impairment at least annually. Write-downs of the balance, if necessary as a result of the impairment test, are to be charged to the results of operations in the period in which the impairment is determined. The Corporation performed its annual tests of goodwill impairment on October 31 of each year. Based on the results of these tests the Corporation concluded that there was no impairment and no write-downs were recorded. If certain events occur which might indicate goodwill has been impaired, the goodwill is tested when such events occur.

As required by Statement of Financial Accounting Standards No. 147, "Acquisitions of Certain Financial Institutions" (Statement 147) the excess purchase price recorded in qualifying branch acquisitions are treated in the same manner as Statement 142 goodwill.

Variable Interest Entities: FASB Interpretation No. 46, "Consolidation of Variable Interest Entities – An Interpretation of ARB No. 51" (FIN 46), provides guidance on when to consolidate certain Variable Interest Entities (VIE's) in the financial statements of the Corporation. VIE's are entities in which equity investors do not have a controlling financial interest or do not have sufficient equity at risk for the entity to finance activities without additional financial support from other parties. Under FIN 46, a company must consolidate a VIE if the company has a variable interest that will absorb a majority of the VIE's losses, if they occur, and/or receive a majority of the VIE's residual returns, if they occur. For the Corporation, FIN 46 affects corporation-obligated mandatorily redeemable capital securities issued by subsidiary trusts (Subsidiary Trusts) and its investments in low and moderate-income housing partnerships (LIH investments).

The provisions of FIN 46 related to Subsidiary Trusts, as interpreted by the Securities and Exchange Commission, disallow consolidation of Subsidiary Trusts in the financial statements of the Corporation. As a result, securities that were issued by the trusts (Trust Preferred Securities) are not included in the Corporation's consolidated balance sheets. The junior subordinated debentures issued by the Parent Company to the Subsidiary Trusts remain in long-term debt (See Note I, "Short Term Borrowings and Long-Term Debt"). The adoption of FIN 46 with respect to Subsidiary Trusts had no impact on net income or net income per share as the terms of the junior subordinated debentures mirror the terms of the Trust Preferred Securities.

Current regulatory capital rules allow Trust Preferred Securities to be included as a component of regulatory capital. This treatment has continued despite the adoption of FIN 46. If banking regulators make a determination that Trust Preferred Securities can no longer be considered in regulatory capital, the securities become callable and the Corporation may redeem them.

LIH Investments are amortized under the effective interest method over the life of the Federal income tax credits generated as a result of such investments, generally ten years. At December 31, 2005 and 2004, the Corporation's LIH Investments totaled $44.2 million and $52.0 million, respectively. The net income tax benefit associated with these investments was $4.9 million, $4.5 million, and $4.0 million in 2005, 2004 and 2003, respectively. None of the Corporation's LIH Investments met the consolidation criteria of FIN 46 as of December 31, 2005 or 2004.

Accounting for Certain Loans or Debt Securities Acquired in a Transfer: In December 2003, the Accounting Standards Executive Committee issued Statement of Position 03-3 (SOP 03-3), "Accounting for Certain Loans or Debt Securities Acquired in a

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Transfer". SOP 03-3 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an investor's initial investment in loans or debt securities acquired in a transfer, including business combinations, if those differences are attributable, at least in part, to credit quality.

SOP 03-3 became effective for the Corporation on January 1, 2005 and was applicable to the July 2005 acquisition of SVB Financial Services, Inc. Few of the loans acquired in this transaction met the scope of SOP 03-3 and, as such, there was no material impact on the consolidated financial statements.

Other-Than-Temporary Impairment: In 2004, the Emerging Issues Task Force (EITF) released EITF Issue 03-01, "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments" (EITF 03-01), which provides guidance for evaluating whether an investment is other-than-temporarily impaired and requires certain disclosures with respect to these investments.

In June 2005, the FASB voted to nullify certain provisions of EITF 03-1 which addressed the evaluation of an impairment to determine whether it was other-than-temporary. In general, these provisions required companies to declare their ability and intent to hold other-than-temporarily impaired investments until they recovered their losses. If a company were unable to make this declaration, write-downs of investment securities through losses charged to the income statement would be required. The effective date of these provisions was originally delayed in September 2004, due to industry concerns about the potential impact of this proposed accounting.

Adoption of the surviving provisions of EITF 03-1 did not have a material impact on the Corporation's financial condition or results of operations. The Corporation continues to apply the provisions of existing authoritative literature in evaluating its investments for other-than-temporary impairment.

Loan Products That May Give Rise to a Concentration of Credit Risk: In December 2005, the FASB issued Staff Position No. SOP 94-6-1, "Terms of Loan Products That May Give Rise to a Concentration of Credit Risk" (SOP 94-6-1), which requires separate fair value disclosures for loan products that increase an entity's exposure to credit risk. Loan products that result in an increased exposure risk include, but are not limited to, products with characteristics such as: borrowers subject to significant payment increases, loans with terms that permit negative amortization, or loans with high loan-to-value ratios. SOP 94-6-1 became effective for the Corporation on December 31, 2005, and did not have a material impact on the Corporation's consolidated financial statements.

Reclassifications and Restatements: Certain amounts in the 2004 and 2003 consolidated financial statements and notes have been reclassified to conform to the 2005 presentation.

All share and per-share data have been restated to reflect the impact of the 5-for-4 stock split paid in the form of a 25% stock dividend in June 2005. As a result of adopting Statement 123R in 2005 using the "modified retrospective application", prior period financial information has been restated. See Note M, "Stock-Based Compensation Plans and Shareholders' Equity" for more information.

NOTE B – RESTRICTIONS ON CASH AND DUE FROM BANKS

The Corporation's subsidiary banks are required to maintain reserves, in the form of cash and balances with the Federal Reserve Bank, against their deposit liabilities. The average amount of such reserves during 2005 and 2004 was approximately $106.9 million and $100.8 million, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE C – INVESTMENT SECURITIES

The following tables present the amortized cost and estimated fair values of investment securities as of December 31:

2005 Held to Maturity	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
		(in thousands)		
U.S. Government sponsored agency securities	**$ 7,512**	**$ -**	**$ (103)**	**$ 7,409**
State and municipal securities	**5,877**	**19**	**-**	**5,896**
Mortgage-backed securities	**4,869**	**143**	**-**	**5,012**
	$ 18,258	**$ 162**	**$ (103)**	**$ 18,317**
2005 Available for Sale				
Equity securities	**$ 137,462**	**$ 2,029**	**$ (3,959)**	**$ 135,532**
U.S. Government securities	**35,124**	**-**	**(6)**	**35,118**
U.S. Government sponsored agency securities	**206,340**	**92**	**(1,250)**	**205,182**
State and municipal securities	**444,034**	**1,044**	**(6,091)**	**438,987**
Corporate debt securities	**64,478**	**1,860**	**(504)**	**65,834**
Mortgage-backed securities	**1,718,237**	**928**	**(55,931)**	**1,663,234**
	$ 2,605,675	**$ 5,953**	**$ (67,741)**	**$ 2,543,887**
2004 Held to Maturity				
U.S. Government sponsored agency securities	$ 6,903	$ 78	$ (55)	$ 6,926
State and municipal securities	10,658	65	-	10,723
Corporate debt securities	650	1	-	651
Mortgage-backed securities	6,790	323	-	7,113
	$ 25,001	$ 467	$ (55)	$ 25,413
2004 Available for Sale				
Equity securities	$ 163,249	$ 7,822	$ (1,006)	$ 170,065
U.S. Government securities	68,497	-	(48)	68,449
U.S. Government sponsored agency securities	60,332	144	-	60,476
State and municipal securities	328,726	4,350	(621)	332,455
Corporate debt securities	68,215	3,053	(141)	71,127
Mortgage-backed securities	1,750,080	1,427	(29,221)	1,722,286
	$ 2,439,099	$ 16,796	$ (31,037)	$ 2,424,858

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amortized cost and estimated fair value of debt securities at December 31, 2005, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held to Maturity		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)			
Due in one year or less	$ 4,540	$ 4,540	$ 107,387	$ 107,291
Due from one year to five years	8,503	8,419	371,204	366,733
Due from five years to ten years	346	346	186,879	184,825
Due after ten years	-	-	84,506	86,272
	13,389	13,305	749,976	745,121
Mortgage-backed securities	4,869	5,012	1,718,237	1,663,234
	$ 18,258	$ 18,317	$2,468,213	$2,408,355

Gross gains totaling $5.9 million, $14.8 million and $17.5 million were realized on the sale of equity securities during 2005, 2004 and 2003, respectively. Gross losses, including losses recognized for other-than-temporary impairment as discussed below, totaling $68,000, $149,000 and $3.5 million were realized during 2005, 2004 and 2003, respectively. Gross gains totaling $1.6 million, $3.1 million and $5.9 million were realized on the sale of available for sale debt securities during 2005, 2004 and 2003, respectively. Gross losses totaling $811,000 were realized on the sale of available for sale debt securities during 2005.

Securities carried at $1.3 billion and $1.2 billion at December 31, 2005 and 2004, respectively, were pledged as collateral to secure public and trust deposits and customer and brokered repurchase agreements.

The following table presents the gross unrealized losses and estimated fair values of investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2005:

	Less Than 12 months		12 Months or Longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(in thousands)					
U.S. Government securities	$ 32,659	$ (6)	$ -	$ -	$ 32,659	$ (6)
U.S. Government sponsored agency securities	172,338	(1,250)	7,409	(103)	179,747	(1,353)
State and municipal securities	275,519	(4,012)	61,469	(2,079)	336,988	(6,091)
Corporate debt securities	17,083	(335)	7,480	(169)	24,563	(504)
Mortgage-backed securities	376,984	(6,681)	1,148,968	(49,250)	1,525,952	(55,931)
Total debt securities	874,583	(12,284)	1,225,326	(51,601)	2,099,909	(63,885)
Equity securities	39,753	(3,281)	7,544	(678)	47,297	(3,959)
Total	$ 914,336	$ (15,565)	$ 1,232,870	$ (52,279)	$ 2,147,206	$ (67,844)

Mortgage-backed securities primarily consist of five and seven-year balloon pools issued by the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA) as well as sequential collateralized mortgage obligations also issued by FHLMC and FNMA. The majority of the securities shown in the above table were purchased during 2003 and 2004 when mortgage rates were at historical lows. Unrealized losses on these securities at December 31, 2005 resulted from the substantial increase in market rates over the past 18 months. Because FHLMC and FNMA guarantee the timely payment of principal, the credit risk for these securities is minimal and, as such, no impairment write-offs were considered to be necessary. For similar reasons, the Corporation does not consider unrealized losses associated with U.S. government sponsored equity securities or state and municipal securities as an indication of impairment.

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The Corporation evaluates whether unrealized losses on equity investments indicate other than temporary impairment. Based upon this evaluation, losses of $65,000, $137,000 and $3.3 million were recognized in 2005, 2004 and 2003, respectively.

NOTE D – LOANS AND ALLOWANCE FOR LOAN LOSSES

Gross loans are summarized as follows as of December 31:

	2005	2004
	(in thousands)	
Commercial - industrial and financial	**$ 2,044,010**	$ 1,946,962
Commercial - agricultural	**331,659**	326,176
Real-estate - commercial mortgage	**2,831,405**	2,461,016
Real-estate - residential mortgage and home equity	**1,774,260**	1,651,321
Real-estate - construction	**851,451**	595,567
Consumer	**519,094**	486,877
Leasing and other	**79,738**	72,795
	8,431,617	7,540,714
Unearned income	**(6,889)**	(6,799)
	$ 8,424,728	$ 7,533,915

Changes in the allowance for loan losses were as follows for the years ended December 31:

	2005	2004	2003
		(in thousands)	
Balance at beginning of year	**$ 89,627**	$ 77,700	$ 71,920
Loans charged off	**(8,204)**	(8,877)	(13,228)
Recoveries of loans previously charged off	**5,196**	4,520	3,829
Net loans charged off	**(3,008)**	(4,357)	(9,399)
Provision for loan losses	**3,120**	4,717	9,705
Allowance purchased	**3,108**	11,567	5,474
Balance at end of year	**$ 92,847**	$ 89,627	$ 77,700

The following table presents non-performing assets as of December 31:

	2005	2004
	(in thousands)	
Non-accrual loans	**$ 36,560**	$ 22,574
Accruing loans greater than 90 days past due	**9,012**	8,318
Other real estate owned	**2,072**	2,209
	$ 47,644	$ 33,101

Interest of approximately $3.0 million, $1.5 million and $1.8 million was not recognized as interest income due to the non-accrual status of loans during 2005, 2004 and 2003, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The recorded investment in loans that were considered to be impaired as defined by Statement 114 was $145.5 million and $130.6 million at December 31, 2005 and 2004, respectively. At December 31, 2005 and 2004, $13.2 million and $6.6 million of impaired loans were included in non-accrual loans, respectively. At December 31, 2005 and 2004, impaired loans had related allowances for loan losses of $49.5 million and $41.6 million, respectively. There were no impaired loans in 2005 and 2004 that did not have a related allowance for loan losses. The average recorded investment in impaired loans during the years ended December 31, 2005, 2004 and 2003 was approximately $128.1 million, $108.0 million, and $78.4 million, respectively.

The Corporation applies all payments received on non-accruing impaired loans to principal until such time as the principal is paid off, after which time any additional payments received are recognized as interest income. Payments received on accruing impaired loans are applied to principal and interest according to the original terms of the loan. The Corporation recognized interest income of approximately $7.7 million, $5.6 million and $3.9 million on impaired loans in 2005, 2004 and 2003, respectively.

The Corporation has extended credit to the officers and directors of the Corporation and to their associates. Related-party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectibility. The aggregate dollar amount of these loans, including unadvanced commitments, was $267.2 million and $209.8 million at December 31, 2005 and 2004, respectively. During 2005, additions totaled $74.5 million and repayments totaled $18.4 million. Somerset Valley Bank added $1.3 million to related party loans.

The total portfolio of mortgage loans serviced by the Corporation for unrelated third parties was $1.2 billion and $1.1 billion at December 31, 2005 and 2004, respectively.

NOTE E – PREMISES AND EQUIPMENT

The following is a summary of premises and equipment as of December 31:

	2005	2004
	(in thousands)	
Land	**$ 26,693**	$ 25,253
Buildings and improvements	**180,153**	149,700
Furniture and equipment	**119,179**	105,406
Construction in progress	**5,483**	10,967
	331,508	291,326
Less: Accumulated depreciation and amortization	**(161,254)**	(144,415)
	$ 170,254	$ 146,911

NOTE F – GOODWILL AND INTANGIBLE ASSETS

The following table summarizes the changes in goodwill:

	2005	2004	2003
		(in thousands)	
Balance at beginning of year	**$ 364,019**	$ 127,202	$ 61,048
Goodwill additions	**54,716**	236,817	66,154
Balance at end of year	**$ 418,735**	$ 364,019	$ 127,202

See Note Q, “Mergers and Acquisitions” for information regarding goodwill acquired in 2005 and 2004.

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The following table summarizes intangible assets at December 31:

	2005			2004		
	Gross	**Accumulated Amortization**	**Net**	Gross	Accumulated Amortization	Net
			(in thousands)			
Amortizing:						
Core deposit	**$ 35,824**	**$ (11,448)**	**$ 24,376**	$ 27,678	$ (7,418)	$ 20,260
Non-compete	**475**	**(135)**	**340**	475	(40)	435
Unidentifiable	**8,875**	**(5,184)**	**3,691**	7,706	(3,998)	3,708
Total amortizing	**45,174**	**(16,767)**	**28,407**	35,859	(11,456)	24,403
Non-amortizing - Trade name	**1,280**	**-**	**1,280**	900	-	900
	$ 46,454	**$ (16,767)**	**$ 29,687**	$ 36,759	$ (11,456)	$ 25,303

Core deposit intangible assets are amortized using an accelerated method over the estimated remaining life of the acquired core deposits. As of December 31, 2005, these assets had a weighted average remaining life of approximately eight years. Unidentifiable intangible assets related to branch acquisitions are amortized on a straight-line basis over ten years. Non-compete intangible assets are being amortized on a straight-line basis over five years, which is the term of the underlying contracts. Amortization expense related to intangible assets totaled $5.3 million, $4.7 million and $2.1 million in 2005, 2004 and 2003, respectively.

Amortization expense for the next five years is expected to be as follows (in thousands):

Year	
2006	$ 5,692
2007	5,115
2008	4,276
2009	3,790
2010	3,215

NOTE G – MORTGAGE SERVICING RIGHTS

The following table summarizes the changes in mortgage servicing rights (MSR's), which are included in other assets in the consolidated balance sheets:

	2005	2004	2003
		(in thousands)	
Balance at beginning of year	**$ 8,157**	$ 8,396	$ 6,233
Originations of mortgage servicing rights	**1,548**	2,138	4,992
Amortization expense	**(2,190)**	(2,377)	(2,829)
Balance at end of year	**$ 7,515**	$ 8,157	$ 8,396

MSR's represent the economic value to be derived by the Corporation based upon its existing contractual rights to service mortgage loans that have been sold. Accordingly, to the extent mortgage loan prepayments occur the value of MSR's can be impacted.

The Corporation estimates the fair value of its MSR's by discounting the estimated cash flows of servicing revenue, net of costs, over the expected life of the underlying loans at a discount rate commensurate with the risk associated with these assets. Expected life is based on industry prepayment projections for mortgage-backed securities with rates and terms comparable to the loans underlying the MSR's. The estimated fair value of MSR's was approximately $8.8 million and $8.5 million at December 31, 2005 and 2004, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Estimated MSR amortization expense for the next five years, based on balances at December 31, 2005 and the expected remaining lives of the underlying loans follows (in thousands):

Year	
2006	$ 1,779
2007	1,594
2008	1,381
2009	1,139
2010	864

NOTE H – DEPOSITS

Deposits consisted of the following as of December 31:

	2005	2004
	(in thousands)	
Noninterest-bearing demand	**$ 1,672,637**	$ 1,507,799
Interest-bearing demand	**1,637,007**	1,501,476
Savings and money market accounts	**2,125,475**	1,917,203
Time deposits	**3,369,720**	2,969,046
	$ 8,804,839	$ 7,895,524

Included in time deposits were certificates of deposit equal to or greater than $100,000 of $749.6 million and $536.0 million at December 31, 2005 and 2004, respectively. The scheduled maturities of time deposits as of December 31, 2005 were as follows (in thousands):

Year	
2006	$ 1,894,744
2007	742,115
2008	227,303
2009	94,241
2010	116,806
Thereafter	294,511
	$ 3,369,720

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE I – SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at December 31, 2005, 2004, and 2003 and the related maximum amounts outstanding at the end of any month in each of the three years then ended are presented below. The securities underlying the repurchase agreements remain in available for sale investment securities.

	December 31			Maximum Outstanding		
	2005	2004	2003	**2005**	2004	2003
	(in thousands)					
Federal funds purchased	**$ 939,096**	$ 676,922	$ 933,000	**$ 939,096**	$ 849,200	$ 933,000
Securities sold under agreements to repurchase	**352,937**	500,206	408,697	**573,991**	708,830	429,819
FHLB overnight repurchase agreements	**2,000**	-	50,000	**2,000**	-	50,000
Revolving line of credit	**-**	11,930	-	**33,180**	26,000	-
Other	**4,929**	5,466	5,014	**13,219**	5,807	6,387
	$ 1,298,962	$ 1,194,524	$ 1,396,711			

In 2004, the Corporation entered into a $50.0 million revolving line of credit agreement with an unaffiliated bank that provides for interest to be paid on outstanding balances at the one-month London Interbank Offering Rate (LIBOR) plus 0.27%. There was no balance outstanding on the line at December 31, 2005. The credit agreement requires the Corporation to maintain certain financial ratios related to capital strength and earnings. The Corporation was in compliance with all required covenants under the credit agreement as of December 31, 2005.

The following table presents information related to securities sold under agreements to repurchase:

	December 31		
	2005	2004	2003
	(dollars in thousands)		
Amount outstanding at December 31	**$ 352,937**	$ 500,206	$ 408,697
Weighted average interest rate at year end	**2.61%**	1.03%	0.72%
Average amount outstanding during the year	**$ 435,922**	$ 531,196	$ 351,302
Weighted average interest rate during the year	**2.12%**	0.97%	0.83%

Federal Home Loan Bank advances and long-term debt included the following as of December 31:

	2005	2004
	(in thousands)	
Federal Home Loan Bank advances	**$ 717,037**	$ 645,461
Junior subordinated deferrable interest debentures	**40,724**	34,022
Subordinated debt	**100,000**	-
Other long-term debt, including unamortized issuance costs	**2,584**	4,753
	$ 860,345	$ 684,236

Excluded from the preceding table is the Parent Company's revolving line of credit with its subsidiary banks ($61.4 million and $70.5 million outstanding at December 31, 2005 and 2004, respectively). This line of credit is secured by equity securities and insurance investments and bears interest at the prime rate. Although the line of credit and related interest have been eliminated in consolidation, this borrowing arrangement is senior to the subordinated debt and the junior subordinated deferrable interest debentures.

In March 2005 the Corporation issued $100.0 million of ten-year subordinated notes, which mature April 1, 2015 and carry a fixed rate of 5.35%. Interest is paid semi-annually in October and April of each year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Parent Company owns all of the common stock of six Subsidiary Trusts, which have issued Trust Preferred Securities in conjunction with the Parent Company issuing junior subordinated deferrable interest debentures to the trusts. The terms of the junior subordinated deferrable interest debentures are the same as the terms of the Trust Preferred Securities. The Parent Company's obligations under the debentures constitute a full and unconditional guarantee by the Parent Company of the obligations of the trusts. The Trust Preferred Securities are redeemable on specified dates, or earlier if the deduction of interest for Federal income taxes is prohibited, the Trust Preferred Securities no longer qualify as Tier I regulatory capital, or if certain other contingencies arise. The Trust Preferred Securities must be redeemed upon maturity. The following table details the terms of the debentures (dollars in thousands):

Debentures Issued to	Fixed/ Variable	Rate at December 31, 2005	Amount	Maturity	Callable
Premier Capital Trust	Fixed	8.57 %	$ 10,310	8/15/2028	8/15/2008
PBI Capital Trust II	Variable	7.79 %	15,464	11/7/2032	11/7/2007
Resource Capital Trust II	Variable	8.42 %	5,155	12/8/2031	12/8/2006
Resource Capital Trust III	Variable	7.79 %	3,093	11/7/2032	11/7/2007
Bald Eagle Statutory Trust I	Variable	7.82 %	4,124	7/31/2031	7/31/2006
Bald Eagle Statutory Trust II	Variable	7.97 %	2,578	6/26/2032	6/26/2007
			$ 40,724		

In January 2006, the Corporation purchased all of the common stock of a new Subsidiary Trust, Fulton Capital Trust I, which was formed for the purpose of issuing $150.0 million of trust preferred securities at a fixed rate of 6.29% and an effective rate of approximately 6.50% as a result of issuance costs. In connection with this transaction the Parent Company issued $154.6 million of junior subordinated deferrable interest debentures to the trust. These debentures carry the same rate and mature on February 1, 2036.

Federal Home Loan Bank advances mature through March 2027 and carry a weighted average interest rate of 4.38%. As of December 31, 2005, the Corporation had an additional borrowing capacity of approximately $1.5 billion with the Federal Home Loan Bank. Advances from the Federal Home Loan Bank are secured by Federal Home Loan Bank stock, qualifying residential mortgages, investments and other assets.

The following table summarizes the scheduled maturities of Federal Home Loan Bank advances and long-term debt as of December 31, 2005 (in thousands):

Year	
2006	$ 33,734
2007	72,367
2008	216,915
2009	48,470
2010	79,768
Thereafter	409,091
	$ 860,345

NOTE J – REGULATORY MATTERS

Dividend and Loan Limitations

The dividends that may be paid by subsidiary banks to the Parent Company are subject to certain legal and regulatory limitations. Under such limitations, the total amount available for payment of dividends by subsidiary banks was approximately $240 million at December 31, 2005.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Under current Federal Reserve regulations, the subsidiary banks are limited in the amount they may loan to their affiliates, including the Parent Company. Loans to a single affiliate may not exceed 10%, and the aggregate of loans to all affiliates may not exceed 20% of each bank subsidiary's regulatory capital. At December 31, 2005, the maximum amount available for transfer from the subsidiary banks to the Parent Company in the form of loans and dividends was approximately $320 million.

Regulatory Capital Requirements
The Corporation's subsidiary banks are subject to various regulatory capital requirements administered by banking regulators. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the subsidiary banks must meet specific capital guidelines that involve quantitative measures of the subsidiary banks' assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The subsidiary banks' capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the subsidiary banks to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets, and of Tier I capital to average assets (as defined in the regulations). Management believes, as of December 31, 2005, that all of its bank subsidiaries meet the capital adequacy requirements to which they are subject.

As of December 31, 2005 and 2004, the Corporation's four significant subsidiaries, Fulton Bank, Lafayette Ambassador Bank, The Bank and Resource Bank were well capitalized under the regulatory framework for prompt corrective action based on their capital ratio calculations. To be categorized as well-capitalized, these banks must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the following table. There are no conditions or events since December 31, 2005 that management believes have changed the institutions' categories.

The following tables present the total risk-based, Tier I risk-based and Tier I leverage requirements for the Corporation and its significant subsidiaries with total assets in excess of $1.0 billion.

	Actual		For Capital Adequacy Purposes		Well-Capitalized	
As of December 31, 2005	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
Total Capital (to Risk-Weighted Assets):						
Corporation	**$ 1,102,891**	**12.1%**	**$ 730,115**	**8.0%**	**$ 912,644**	**10.0%**
Fulton Bank	**409,653**	**11.1**	**295,353**	**8.0**	**369,191**	**10.0**
Lafayette Ambassador Bank	**102,007**	**11.6**	**70,539**	**8.0**	**88,173**	**10.0**
The Bank	**101,532**	**11.0**	**73,965**	**8.0**	**92,456**	**10.0**
Resource Bank	**105,343**	**11.9**	**70,786**	**8.0**	**88,482**	**10.0**
Tier I Capital (to Risk-Weighted Assets):						
Corporation	**$ 910,044**	**10.0%**	**$ 365,057**	**4.0%**	**$ 547,586**	**6.0%**
Fulton Bank	**323,466**	**8.8**	**147,676**	**4.0**	**221,515**	**6.0**
Lafayette Ambassador Bank	**85,331**	**9.7**	**35,269**	**4.0**	**52,904**	**6.0**
The Bank	**80,820**	**8.7**	**36,983**	**4.0**	**55,474**	**6.0**
Resource Bank	**86,825**	**9.8**	**35,393**	**4.0**	**53,089**	**6.0**
Tier I Capital (to Average Assets):						
Corporation	**$ 910,044**	**7.7%**	**$ 355,090**	**3.0%**	**$ 591,817**	**5.0%**
Fulton Bank	**323,466**	**7.1**	**137,077**	**3.0**	**228,462**	**5.0**
Lafayette Ambassador Bank	**85,331**	**7.0**	**36,492**	**3.0**	**60,821**	**5.0**
The Bank	**80,820**	**7.0**	**34,606**	**3.0**	**57,676**	**5.0**
Resource Bank	**86,825**	**7.9**	**33,116**	**3.0**	**55,194**	**5.0**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2004	Actual		For Capital Adequacy Purposes		Well-Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
Total Capital (to Risk-Weighted Assets):						
Corporation	$ 981,000	11.8%	$ 667,522	8.0%	$ 834,402	10.0%
Fulton Bank	401,961	11.2	286,697	8.0	358,372	10.0
Lafayette Ambassador Bank	95,631	11.4	67,124	8.0	83,905	10.0
The Bank	89,891	11.1	64,969	8.0	81,211	10.0
Resource Bank	83,274	11.1	60,241	8.0	75,302	10.0
Tier I Capital (to Risk-Weighted Assets):						
Corporation	$ 888,526	10.6%	$ 333,761	4.0%	$ 500,641	6.0%
Fulton Bank	366,633	10.2	143,349	4.0	215,023	6.0
Lafayette Ambassador Bank	86,456	10.3	33,562	4.0	50,343	6.0
The Bank	81,252	10.0	32,485	4.0	48,727	6.0
Resource Bank	75,503	10.0	30,121	4.0	45,181	6.0
Tier I Capital (to Average Assets):						
Corporation	$ 888,526	8.8%	$ 304,392	3.0%	$ 507,319	5.0%
Fulton Bank	366,633	8.4	130,290	3.0	217,150	5.0
Lafayette Ambassador Bank	86,456	7.4	35,166	3.0	58,609	5.0
The Bank	81,252	7.7	31,762	3.0	52,937	5.0
Resource Bank	75,503	7.7	29,304	3.0	48,839	5.0

NOTE K – INCOME TAXES

The components of the provision for income taxes are as follows:

	Year ended December 31		
	2005	2004	2003
		(in thousands)	
Current tax expense:			
Federal	**$ 69,611**	$ 63,440	$ 53,342
State	**760**	417	1,277
	70,371	63,857	54,619
Deferred tax expense	**990**	816	4,465
	$ 71,361	$ 64,673	$ 59,084

The differences between the effective income tax rate and the Federal statutory income tax rate are as follows:

	Year ended December 31		
	2005	2004	2003
Statutory tax rate	**35.0%**	35.0%	35.0%
Effect of tax-exempt income	**(2.8)**	(2.9)	(3.3)
Effect of low income housing investments	**(2.1)**	(2.1)	(2.1)
State income taxes, net of Federal benefit	**0.2**	0.1	0.4
Other	**(0.2)**	0.1	0.2
Effective income tax rate	**30.1%**	30.2%	30.2%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The net deferred tax asset recorded by the Corporation is included in other assets and consists of the following tax effects of temporary differences at December 31:

	2005	2004
	(in thousands)	
Deferred tax assets:		
Allowance for loan losses	**$ 32,496**	$ 31,370
Unrealized holding losses on securities available for sale	**21,592**	5,155
Deferred compensation	**7,234**	6,072
LIH Investments	**3,318**	2,724
Post-retirement benefits	**3,225**	3,403
Other accrued expenses	**2,412**	1,549
Stock-based compensation	**1,867**	1,797
Other than temporary impairment of investments	**1,400**	1,022
Derivative financial instruments	**1,177**	-
Other	**153**	1,541
Total gross deferred tax assets	**74,874**	54,633
Deferred tax liabilities:		
Direct leasing	**9,357**	10,038
Intangible assets and acquisition premiums/discounts	**8,679**	5,014
Mortgage servicing rights	**2,653**	2,855
Premises and equipment	**747**	2,003
Other	**5,601**	2,522
Total gross deferred tax liabilities	**27,037**	22,432
Net deferred tax asset	**$ 47,837**	$ 32,201

The Corporation has net operating losses (NOL's) for income taxes in certain states that are eligible for carryforward credit against future taxable income for a specific number of years. The Corporation does not anticipate generating taxable income in these states during the carryforward years and, as such, deferred tax assets have not been recognized for these NOL's.

As of December 31, 2005 and 2004, the Corporation had not established any valuation allowance against net Federal deferred tax assets since these tax benefits are realizable either through carryback availability against prior years' taxable income or the reversal of existing deferred tax liabilities. Based on the Corporation's historical and projected net income, a valuation allowance is not considered necessary.

NOTE L – EMPLOYEE BENEFIT PLANS

Substantially all eligible employees of the Corporation are covered by one of the following plans or combination of plans:

Profit Sharing Plan – A noncontributory defined contribution plan where employer contributions are based on a formula providing for an amount not to exceed 15% of each eligible employee's annual salary (10% for employees hired subsequent to January 1, 1996). Participants are 100% vested in balances after five years of eligible service. In addition, the profit sharing plan includes a 401(k) feature which allows employees to defer a portion of their pre-tax salary on an annual basis, with no employer match. Contributions under this feature are 100% vested.

Defined Benefit Pension Plans and 401(k) Plans – Contributions to the Corporation's defined benefit pension plan (Pension Plan) are actuarially determined and funded annually. Pension Plan assets are invested in money markets, fixed income securities, including corporate bonds, U.S. Treasury securities and common trust funds, and equity securities, including common stocks and common stock mutual funds. The Pension Plan has been closed to new participants, but existing participants continue to accrue benefits according to the terms of the plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Employees covered under the Pension Plan are also eligible to participate in the Fulton Financial Affiliates 401(k) Savings Plan, which allows employees to defer a portion of their pre-tax salary on an annual basis. At its discretion, the Corporation may also make a matching contribution up to 3%. Participants are 100% vested in the Corporation's matching contributions after three years of eligible service.

The following summarizes the Corporation's expense under the above plans for the years ended December 31:

	2005	2004	2003
		(in thousands)	
Profit Sharing Plan	**$ 7,801**	$ 8,251	$ 6,606
Pension Plan	**3,468**	3,072	3,025
401(k) Plan	**1,376**	967	596
	$ 12,645	$ 12,290	$ 10,227

The net periodic pension cost for the Corporation's Pension Plan, as determined by consulting actuaries, consisted of the following components for the years ended December 31:

	2005	2004	2003
		(in thousands)	
Service cost	**$ 2,486**	$ 2,307	$ 2,178
Interest cost	**3,370**	3,102	2,952
Expected return on assets	**(3,273)**	(3,001)	(2,631)
Net amortization and deferral	**885**	664	526
Net periodic pension cost	**$ 3,468**	$ 3,072	$ 3,025

The measurement date for the Pension Plan is September 30. The following table summarizes the changes in the projected benefit obligation and fair value of plan assets for the indicated periods:

	Plan Year Ended September 30	
	2005	2004
	(in thousands)	
Projected benefit obligation, beginning	**$ 59,265**	$ 52,282
Service cost	**2,486**	2,307
Interest cost	**3,370**	3,102
Benefit payments	**(1,673)**	(1,270)
Actuarial loss	**959**	2,552
Experience (gain) loss	**(767)**	292
Projected benefit obligation, ending	**$ 63,640**	$ 59,265
Fair value of plan assets, beginning	**$ 41,468**	$ 37,980
Employer contributions	**10,652**	2,622
Actual return on assets	**3,010**	2,136
Benefit payments	**(1,673)**	(1,270)
Fair value of plan assets, ending	**$ 53,457**	$ 41,468

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The funded status of the Pension Plan and the amounts included in the consolidated balance sheets as of December 31 follows:

	2005	2004
	(in thousands)	
Projected benefit obligation	**$ (63,640)**	$ (59,265)
Fair value of plan assets	**53,457**	41,468
Funded status	**(10,183)**	(17,797)
Unrecognized net transition asset	**(38)**	(51)
Unrecognized prior service cost	**72**	82
Unrecognized net loss	**15,254**	15,687
Intangible asset	**-**	(82)
Accumulated other comprehensive loss	**-**	(858)
Pension asset (liability) recognized in the consolidated balance sheets	**$ 5,105**	$ (3,019)
Accumulated benefit obligation	**$ 50,434**	$ 44,487

Accumulated other comprehensive income was reduced by $858,000 ($558,000, net of tax) as of December 31, 2004 to increase the pension liability to an amount equal to the difference between the accumulated benefit obligation and the fair value of plan assets. This adjustment was reversed in 2005 as a result of the Corporation making a $10.7 million contribution to the plan in September 2005.

The following rates were used to calculate net periodic pension cost and the present value of benefit obligations:

	2005	2004	2003
Discount rate-projected benefit obligation	**5.50%**	5.75%	6.00%
Rate of increase in compensation level	**4.00**	4.50	4.50
Expected long-term rate of return on plan assets	**8.00**	8.00	8.00

The 5.50% discount rate used to calculate the present value of benefit obligations is determined using published long-term AA corporate bond rates as of the measurement date, rounded to the nearest 0.25%. The 8.0% long-term rate of return on plan assets used to calculate the net periodic pension cost is based on historical returns. Total returns for 2005, 2004 and 2003 approximated this rate. The expected long-term return is considered to be appropriate based on the asset mix and the historical returns realized.

The following table summarizes the weighted average asset allocations as of September 30:

	2005	2004
Cash and equivalents	**17.0%**	6.0%
Equity securities	**44.0**	50.0
Fixed income securities	**39.0**	44.0
Total	**100.0%**	100.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Equity securities consist mainly of equity common trust and mutual funds. Fixed income securities consist mainly of fixed income common trust funds. Defined benefit plan assets are invested with a balanced growth objective, with target asset allocations between 40 and 70 percent for equity securities and 30 to 60 percent for fixed income securities. The Corporation expects to contribute $4.1 million to the pension plan in 2006. Estimated future benefit payments are as follows (in thousands):

Year	
2006	$ 1,458
2007	1,495
2008	1,597
2009	1,761
2010	1,992
2011 – 2015	14,587
	$ 22,890

Post-retirement Benefits

The Corporation currently provides medical benefits and a death benefit to certain retired full-time employees who were employees of the Corporation prior to January 1, 1998. Certain full-time employees may become eligible for these discretionary benefits if they reach retirement age while working for the Corporation. Benefits are based on a graduated scale for years of service after attaining the age of 40.

The components of the expense for post-retirement benefits other than pensions are as follows:

	2005	2004	2003
		(in thousands)	
Service cost	**$ 406**	$ 364	$ 281
Interest cost	**524**	474	446
Expected return on plan assets	**(5)**	(2)	(2)
Net amortization and deferral	**(226)**	(230)	(287)
Net post-retirement benefit cost	**$ 699**	$ 606	$ 438

The following table summarizes the changes in the accumulated post-retirement benefit obligation and fair value of plan assets for the years ended December 31:

	2005	2004
	(in thousands)	
Accumulated post-retirement benefit obligation, beginning	**$ 8,929**	$ 7,815
Service cost	**406**	364
Interest cost	**524**	474
Benefit payments	**(359)**	(268)
Change due to change in experience	**419**	296
Change due to change in assumptions	**930**	248
Accumulated post-retirement benefit obligation, ending	**$ 10,849**	$ 8,929
Fair value of plan assets, beginning	**$ 150**	$ 165
Employer contributions	**350**	251
Actual return on assets	**5**	2
Benefit payments	**(359)**	(268)
Fair value of plan assets, ending	**$ 146**	$ 150

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The funded status of the plan and the amounts included in other liabilities as of December 31 follows:

	2005	2004
	(in thousands)	
Accumulated post-retirement benefit obligation	**$ (10,849)**	$ (8,929)
Fair value of plan assets	**146**	150
Funded status	**(10,703)**	(8,779)
Unrecognized prior service cost	**(453)**	(679)
Unrecognized net loss (gain)	**1,311**	(39)
Post-retirement benefit liability recognized in the consolidated balance sheets	**$ (9,845)**	$ (9,497)

For measuring the post-retirement benefit obligation, the annual increase in the per capita cost of health care benefits was assumed to be 9.0% in year one, declining to an ultimate rate of 4.5% by year nine. This health care cost trend rate has a significant impact on the amounts reported. Assuming a 1.0% increase in the health care cost trend rate above the assumed annual increase, the accumulated post-retirement benefit obligation would increase by approximately $1.4 million and the current period expense would increase by approximately $141,000. Conversely, a 1% decrease in the health care cost trend rate would decrease the accumulated post-retirement benefit obligation by approximately $1.2 million and the current period expense by approximately $115,000.

The discount rate used in determining the accumulated post-retirement benefit obligation, which is determined using published long-term AA corporate bond rates as of the measurement date, rounded to the nearest 0.25%, was 5.50% at December 31, 2005 and 5.75% at December 31, 2004. The expected long-term rate of return on plan assets was 3.00% at December 31, 2005 and 2004.

NOTE M – STOCK-BASED COMPENSATION PLANS AND SHAREHOLDERS' EQUITY

Statement 123R requires that the fair value of equity awards to employees be recognized as compensation expense over the period during which an employee is required to provide service in exchange for such award. During the third quarter of 2005, the Corporation adopted Statement 123R using “modified retrospective application”, electing to restate all prior periods including all per-share amounts. The principal accounts impacted by the restatement were salaries and employee benefits expense, additional paid-in capital, retained earnings, other assets and taxes. The Corporation’s equity awards consist of stock options and restricted stock granted under its Stock Option and Compensation Plans (Option Plans) and shares purchased by employees under its Employee Stock Purchase Plan (ESPP).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes the impact of modified retrospective application on the previously reported results for the periods shown:

	2004	2003
	(in thousands, except per-share data)	
Income before income taxes, originally reported	$ 218,181	$ 197,543
Stock-based compensation expense under the fair value method (1)	(3,900)	(2,092)
Income before income taxes, restated	$ 214,281	$ 195,451
Net income, originally reported	$ 152,917	$ 138,180
Stock-based compensation expense under the fair value method, net of tax (1)	(3,309)	(1,813)
Net income, restated	$ 149,608	$ 136,367
Net income per share (basic), originally reported (2)	$ 1.02	$ 0.98
Net income per share (basic), restated	1.00	0.97
Net income per share (diluted), originally reported (2)	$ 1.01	$ 0.98
Net income per share (diluted), restated	0.99	0.96

(1) Stock-based compensation expense, originally reported, was $0.
(2) Originally reported amounts have been restated for the impact of the 5-for-4 stock split paid in June 2005.

As a result of the retrospective adoption of Statement 123R, as of January 1, 2003 retained earnings decreased $11.4 million, additional paid-in capital increased $12.5 million and deferred tax assets increased $1.1 million. These changes reflect a combination of compensation expense for prior stock option grants to employees and related tax benefits.

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

	2005	2004	2003
		(in thousands)	
Compensation expense	**$ 1,041**	$ 3,900	$ 2,092
Tax benefit	**(321)**	(591)	(279)
Net income effect	**$ 720**	$ 3,309	$ 1,813

The tax benefit shown in the preceding table is less than the benefit that would be calculated using the Corporation's 35% statutory Federal tax rate. Under Statement 123R, tax benefits are recognized upon grant only for options that ordinarily will result in a tax deduction when exercised (non-qualified stock options). The Corporation granted 440,000, 607,000 and 260,000 non-qualified stock options in 2005, 2004 and 2003, respectively. Compensation expense and tax benefits for restricted stock awards for the year ended December 31, 2005, included in the preceding table, were $270,000 and $94,000, respectively.

Under the Option Plans, stock options are granted to key employees for terms of up to ten years at option prices equal to the fair market value of the Corporation's stock on the date of grant. Options are typically granted annually on July 1st and, prior to the July 1, 2005 grant, had been 100% vested immediately upon grant. For the July 1, 2005 grant, a three-year cliff-vesting feature was added and, as a result, compensation expense associated with this grant will be recognized over the three-year vesting period. This change in vesting resulted in a significant decrease in stock-based compensation expense in 2005 as compared to 2004. On July 1, 2005, 15,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

shares of restricted stock with a five-year cliff-vesting period were granted to one employee. Certain events as defined in the Option Plans result in the acceleration of the vesting of both the stock options and restricted stock. As of December 31, 2005, the Option Plans had 14.9 million shares reserved for future grants through 2013.

The following table provides information about options outstanding for the year ended December 31, 2005:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2004	6,591,053	$ 10.74		
Granted	1,092,500	17.98		
Exercised	(1,051,719)	7.50		
Assumed from SVB Financial	166,218	13.08		
Forfeited	(20,364)	16.53		
Outstanding at December 31, 2005	6,777,688	$ 12.45	6.2 years	$34.9
Exercisable at December 31, 2005	5,677,828	$ 11.42	5.5 years	$35.1

The following table provides information about nonvested options and restricted stock for the year ended December 31, 2005:

	Stock Options		Restricted Stock	
	Options	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2004	-	$ -	-	$ -
Granted	1,092,500	2.52	15,000	17.98
Vested	-	-	-	-
Forfeited	(7,800)	2.52	-	-
Nonvested at December 31, 2005	1,084,700	$ 2.52	15,000	$ 17.98

As of December 31, 2005, there was $2.1 million of total unrecognized compensation cost related to nonvested stock options that will be recognized as compensation expense over a weighted average period of 2.5 years.

The following table presents information about options exercised:

	2005	2004	2003
	(dollars in thousands)		
Number of options exercised	**1,051,719**	1,388,773	532,181
Total intrinsic value of options exercised	**$ 10,675**	$ 13,577	$ 4,503
Cash received from options exercised	**$ 6,774**	$ 6,341	$ 2,216
Tax deduction realized from options exercised	**$ 7,049**	$ 6,936	$ 1,960

Upon exercise, the Corporation issues shares from its authorized, but unissued, common stock to satisfy the options.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The fair value of option awards under the Option Plans is estimated on the date of grant using the Black-Scholes valuation methodology, which is dependent upon certain assumptions, as summarized in the following table.

	2005	2004	2003
Risk-free interest rate	**3.76%**	4.22%	3.55%
Volatility of Corporation's stock	**16.17**	18.12	22.75
Expected dividend yield	**3.23**	3.22	3.22
Expected life of options	**6 Years**	7 Years	8 Years

The expected life of the options was estimated based on historical employee behavior and represents the period of time that options granted are expected to be outstanding. Volatility of the Corporation's stock was based on historical volatility for the period commensurate with the expected life of the options. The risk-free interest rate is the U.S. Treasury rate commensurate with the expected life of the options on the date of the grant.

Based on the assumptions used in the model, the Corporation calculated an estimated fair value per option of $2.52, $2.78 and $3.07 for options granted in 2005, 2004 and 2003, respectively. Approximately 1.1 million, 1.3 million and 601,000 options were granted in 2005, 2004 and 2003, respectively. The fair value of restricted stock awards is equal to the fair market value of the Corporation's stock on the date of grant.

Under the ESPP, eligible employees can purchase stock of the Corporation at 85% of the fair market value of the stock on the date of purchase. The ESPP is considered to be a compensatory plan under Statement 123R and, as such, compensation expense is recognized for the 15% discount on shares purchased. The following table summarizes activity under the ESPP for the indicated periods.

	2005	2004	2003
ESPP shares purchased	**130,946**	105,392	108,380
Average purchase price per share (85% of market value)	**$ 14.82**	$ 14.55	$ 12.82
Compensation expense recognized (in thousands)	**$ 341**	$ 271	$ 245

Shareholder Rights

On June 20, 1989, the Board of Directors of the Corporation declared a dividend of one common share purchase right (Original Rights) for each outstanding share of common stock, par value $2.50 per share, of the Corporation. The dividend was paid to the shareholders of record as of the close of business on July 6, 1989. On April 27, 1999, the Board of Directors approved an amendment to the Original Rights and the rights agreement. The significant terms of the amendment included extending the expiration date from June 20, 1999 to April 27, 2009 and resetting the purchase price to $90.00 per share. As of December 31, 2005, the purchase price had adjusted to $43.08 per share as a result of stock dividends.

The Rights are not exercisable or transferable apart from the common stock prior to distribution. Distribution of the Rights will occur ten business days following (1) a public announcement that a person or group of persons (Acquiring Person) has acquired or obtained the right to acquire beneficial ownership of 20% or more of the outstanding shares of common stock (the Stock Acquisition Date) or (2) the commencement of a tender offer or exchange offer that would result in a person or group beneficially owning 25% or more of such outstanding shares of common stock. The Rights are redeemable in full, but not in part, by the Corporation at any time until ten business days following the Stock Acquisition Date, at a price of $0.01 per Right.

Treasury Stock

The Corporation periodically repurchases shares of its common stock under repurchase plans approved by the Board of Directors. These repurchases have historically been through open market transactions and have complied with all regulatory restrictions on the timing and amount of such repurchases. Shares repurchased have been added to treasury stock and are accounted for at cost. These shares are periodically reissued for various corporate needs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In 2005, the Corporation purchased 4.3 million shares of its common stock from an investment bank at a total cost of $73.6 million under an "Accelerated Share Repurchase" program (ASR), which allowed the shares to be purchased immediately rather than over time. The investment bank, in turn, repurchased shares on the open market over a period that was determined by the average daily trading volume of the Corporation's shares, among other factors. The Corporation completed the ASR in February of 2006 and settled its position with the investment bank by paying $3.4 million, representing the difference between the initial prices paid and the actual price of the shares repurchased.

Total treasury stock purchases, including both open market purchases and ASR's, were approximately 5.0 million shares in 2005, 4.7 million shares in 2004 and 4.0 million shares in 2003.

NOTE N – LEASES

Certain branch offices and equipment are leased under agreements that expire at varying dates through 2035. Most leases contain renewal provisions at the Corporation's option. Total rental expense was approximately $12.1 million in 2005, $9.4 million in 2004 and $6.4 million in 2003. Future minimum payments as of December 31, 2005 under noncancelable operating leases are as follows (in thousands):

Year	
2006	$ 10,437
2007	9,593
2008	7,763
2009	6,222
2010	5,107
Thereafter	33,186
	$ 72,308

NOTE O – COMMITMENTS AND CONTINGENCIES

The Corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit, which involve, to varying degrees, elements of credit and interest rate risk that are not recognized in the consolidated balance sheets.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments is expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income producing commercial properties.

Standby letters of credit are conditional commitments issued to guarantee the financial or performance obligation of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation underwrites these obligations using the same criteria as its commercial lending underwriting. The Corporation's maximum exposure to loss for standby letters of credit is equal to the contractual (or notional) amount of the instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the Corporation’s commitments to extend credit and letters of credit:

	2005	2004
	(in thousands)	
Commercial mortgage, construction and land development	**$ 829,769**	$ 689,818
Home equity	**494,872**	412,790
Credit card	**382,415**	384,504
Commercial and other	**2,028,997**	1,851,159
Total commitments to extend credit	**$ 3,736,053**	$ 3,338,271
Standby letters of credit	**$ 599,191**	$ 533,094
Commercial letters of credit	**23,037**	24,312
Total letters of credit	**$ 622,228**	$ 557,406

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

During the first quarter of 2006, a legal settlement was reached in a lawsuit against Resource Bank, a wholly owned subsidiary of Fulton Financial. The suit alleged Resource Bank violated the Telephone Consumer Protection Act (TCPA), prior to being acquired by Fulton Financial in April 2004. The settlement resulted in a $2.2 million charge to other expense for the year ended December 31, 2005. The settlement is subject to court approval.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE P – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following are the estimated fair values of the Corporation's financial instruments as of December 31, 2005 and 2004, followed by a general description of the methods and assumptions used to estimate such fair values. These fair values are significantly affected by assumptions used, principally the timing of future cash flows and the discount rate. Because assumptions are inherently subjective in nature, the estimated fair values cannot be substantiated by comparison to independent market quotes and, in many cases, the estimated fair values could not necessarily be realized in an immediate sale or settlement of the instrument. Further, certain financial instruments and all non-financial instruments are excluded. Accordingly, the aggregate fair value amounts presented do not necessarily represent management's estimation of the underlying value of the Corporation.

	2005		2004	
FINANCIAL ASSETS	**Book Value**	**Estimated Fair Value**	Book Value	Estimated Fair Value
	(in thousands)			
Cash and due from banks	**$ 368,043**	**$ 368,043**	$ 278,065	$ 278,065
Interest-bearing deposits with other banks	**31,404**	**31,404**	4,688	4,688
Federal funds sold	**528**	**528**	32,000	32,000
Loans held for sale	**243,378**	**243,378**	209,504	209,504
Securities held to maturity (1)	**18,258**	**18,317**	25,001	25,413
Securities available for sale (1)	**2,543,887**	**2,543,887**	2,424,858	2,424,858
Net loans	**8,424,728**	**8,322,514**	7,533,915	7,619,104
Accrued interest receivable	**53,261**	**53,261**	40,633	40,633
FINANCIAL LIABILITIES				
Demand and savings deposits	**$ 5,435,119**	**$ 5,435,119**	$ 4,926,478	$ 4,926,478
Time deposits	**3,369,720**	**3,346,911**	2,969,046	2,974,551
Short-term borrowings	**1,298,962**	**1,298,962**	1,194,524	1,194,524
Accrued interest payable	**38,604**	**38,604**	27,279	27,279
Other financial liabilities	**41,643**	**41,643**	29,640	29,640
Federal Home Loan Bank advances and long-term debt	**860,345**	**871,429**	684,236	710,215

(1) See Note C, "Investment Securities", for detail by security type.

For short-term financial instruments, defined as those with remaining maturities of 90 days or less, the carrying amount was considered to be a reasonable estimate of fair value. The following instruments are predominantly short-term:

Assets	**Liabilities**
Cash and due from banks	Demand and savings deposits
Interest bearing deposits	Short-term borrowings
Federal funds sold	Accrued interest payable
Accrued interest receivable	Other financial liabilities
Loans held for sale	

For those components of the above-listed financial instruments with remaining maturities greater than 90 days, fair values were determined by discounting contractual cash flows using rates which could be earned for assets with similar remaining maturities and, in the case of liabilities, rates at which the liabilities with similar remaining maturities could be issued as of the balance sheet date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As indicated in Note A, "Summary of Significant Accounting Policies", securities available for sale are carried at their estimated fair values. The estimated fair values of securities held to maturity as of December 31, 2005 and 2004 were generally based on quoted market prices, broker quotes or dealer quotes.

For short-term loans and variable rate loans that reprice within 90 days, the carrying value was considered to be a reasonable estimate of fair value. For other types of loans, fair value was estimated by discounting future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. In addition, for loans secured by real estate, appraisal values for the collateral were considered in the fair value determination.

The fair value of long-term debt was estimated by discounting the remaining contractual cash flows using a rate at which the Corporation could issue debt with a similar remaining maturity as of the balance sheet date. The fair value of commitments to extend credit and standby letters of credit is estimated to equal their carrying amounts.

NOTE Q – MERGERS AND ACQUISITIONS

Completed Acquisitions
On July 1, 2005, the Corporation completed its acquisition of SVB Financial Services, Inc. (SVB). SVB was a $530 million bank holding company whose primary subsidiary was Somerset Valley Bank (Somerset Valley), which operates thirteen community-banking offices in Somerset, Hunterdon and Middlesex Counties in New Jersey.

Under the terms of the merger agreement, each of the approximately 4.1 million shares of SVB's common stock was acquired by the Corporation based on a "cash election merger" structure. Each SVB shareholder elected to receive 100% of the merger consideration in stock, 100% in cash, or a combination of stock and cash.

As a result of the SVB shareholder elections, approximately 3.2 million of the SVB shares outstanding on the acquisition date were converted into shares of Corporation common stock, based on a fixed exchange ratio of 1.1899 shares of Corporation stock for each share of SVB stock. The remaining 983,000 shares of SVB stock were purchased for $21.00 per share. In addition, each of the options to acquire SVB's stock was converted into options to purchase the Corporation's stock or was settled in cash, based on the election of each option holder and the terms of the merger agreement. The total purchase price was $90.4 million, including $66.6 million in stock issued and stock options assumed, $22.4 million of SVB stock purchased and options settled for cash and $1.4 million for other direct acquisition costs. The purchase price for shares issued was determined based on the value of the Corporation's stock on the date when the number of shares was fixed and determinable.

As a result of the acquisition, SVB was merged into the Corporation and Somerset Valley became a wholly owned subsidiary. The acquisition was accounted for using purchase accounting, which required the Corporation to allocate the total purchase price of the acquisition to the assets acquired and liabilities assumed, based on their respective fair values at the acquisition date, with any remaining purchase price being recorded as goodwill. Resulting goodwill balances are then subject to an impairment test on at least an annual basis. The results of Somerset Valley's operations are included in the Corporation's financial statements prospectively from the July 1, 2005 acquisition date.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a summary of the purchase price allocation based on estimated fair values on the acquisition date (in thousands):

Cash and due from banks	$ 20,035
Other earning assets	61,046
Investment securities available for sale	124,916
Loans, net of allowance	301,660
Premises and equipment	9,345
Core deposit intangible asset	8,476
Trade name intangible asset	380
Goodwill	54,417
Other assets	10,608
Total assets acquired	590,883
Deposits	473,490
Long-term debt	24,710
Other liabilities	2,290
Total liabilities assumed	500,490
Net assets acquired	$ 90,393

On December 31, 2004, the Corporation completed its acquisition of First Washington FinancialCorp (First Washington), of Windsor, New Jersey. First Washington was a $490 million bank holding company whose primary subsidiary was First Washington State Bank, which operates sixteen community-banking offices in Mercer, Monmouth, and Ocean Counties in New Jersey.

The total purchase price was $126.0 million including $125.2 million in stock issued and options assumed and $729,000 in First Washington stock purchased for cash and other direct acquisition costs. The Corporation issued 1.69 shares of its stock for each of the 4.3 million shares of First Washington outstanding on the acquisition date. The purchase price was determined based on the value of the Corporation's stock on the date when the final terms of the acquisition were agreed to and announced.

On April 1, 2004, the Corporation completed its acquisition of Resource Bankshares Corporation (Resource), an $890 million financial holding company, and its primary subsidiary, Resource Bank. Resource Bank is located in Virginia Beach, Virginia, and operates six community-banking offices in Newport News, Chesapeake, Herndon, Virginia Beach and Richmond, Virginia and fourteen loan production and residential mortgage offices in Virginia, North Carolina, Maryland and Florida.

The total purchase price was $195.7 million, including $185.9 million in stock issued and options assumed, and $9.8 million in Resource stock purchased for cash and other direct acquisition costs. The Corporation issued 1.925 shares of its stock for each of the 5.9 million shares of Resource outstanding on the acquisition date. The purchase price was determined based on the value of the Corporation's stock on the date when the final terms of the acquisition were agreed to and announced.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes unaudited pro-forma information assuming the acquisitions of SVB, First Washington and Resource had occurred on January 1, 2004. This pro-forma information includes certain adjustments, including amortization related to fair value adjustments recorded in purchase accounting (in thousands, except per-share information):

	2005	2004
Net interest income	**$ 420,644**	$ 397,007
Other income	**145,128**	149,029
Net income	**167,178**	155,523
Per Share:		
Net income (basic)	**$ 1.06**	$ 0.97
Net income (diluted)	**1.04**	0.95

Subsequent Event - Acquisition

On February 1, 2006, the Corporation completed its acquisition of Columbia Bancorp (Columbia), of Columbia, Maryland. Columbia was a $1.3 billion bank holding company whose primary subsidiary was The Columbia Bank, which operates 19 full-service community banking offices and five retirement community offices in Howard, Montgomery, Prince George's and Baltimore Counties and Baltimore City.

Under the terms of the merger agreement, each of the approximately 6.9 million shares of Columbia's common stock was acquired by the Corporation based on a "cash election merger" structure. Each Columbia shareholder elected to receive 100% of the merger consideration in stock, 100% in cash, or a combination of stock and cash.

As a result of Columbia shareholder elections, approximately 3.5 million of the Columbia shares outstanding on the acquisition date were converted into shares of the Corporation common stock, based upon a fixed exchange ratio of 2.325 shares of Corporation stock for each share of Columbia stock. The remaining 3.4 million shares of Columbia stock were purchased for $42.48 per share. In addition, each of the options to acquire Columbia's stock was converted into options to purchase the Corporation's stock or was settled in cash, based on the election of each option holder and the terms of the merger agreement. The total purchase price was approximately $302 million, including $150.1 million in stock issued and stock options assumed, $150.4 million of Columbia stock purchased and options settled for cash and $1.4 million for other direct acquisition costs. The purchase price for shares issued was determined based on the value of the Corporation's stock on the date when the number of shares was fixed and determinable.

As a result of the acquisition, Columbia was merged into the Corporation and The Columbia Bank became a wholly owned subsidiary. The acquisition is being accounted for using purchase accounting, which requires the Corporation to allocate the total purchase price of the acquisition to the assets acquired and liabilities assumed, based on their respective fair values at the acquisition date, with any remaining acquisition cost being recorded as goodwill. Resulting goodwill balances are then subject to an impairment review on at least an annual basis. The carrying value of Columbia's net assets as of February 1, 2006 was approximately $98.4 million. The Corporation is in the process of determining the fair value of the net assets acquired and expects to have a preliminary purchase price allocation completed by the end of the first quarter of 2006. The results of Columbia's operations will be included in the Corporation's financial statements prospectively from the date of the acquisition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE R – CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY

CONDENSED BALANCE SHEETS
(in thousands)

	December 31	
	2005	2004
ASSETS		
Cash, securities, and other assets	**$ 8,852**	$ 6,740
Receivable from subsidiaries	**10**	777
Investment in:		
Bank subsidiaries	**1,203,927**	1,183,856
Non-bank subsidiaries	**355,343**	250,901
Total Assets	**$ 1,568,132**	$ 1,442,274

	December 31	
	2005	2004
LIABILITIES AND EQUITY		
Line of credit with bank subsidiaries	**$ 61,388**	$ 70,500
Revolving line of credit	**-**	11,930
Long-term debt	**140,121**	34,955
Payable to non-bank subsidiaries	**43,674**	48,117
Other liabilities	**39,978**	32,685
Total Liabilities	**285,161**	198,187
Shareholders' equity	**1,282,971**	1,244,087
Total Liabilities and Shareholders' Equity	**$ 1,568,132**	$ 1,442,274

CONDENSED STATEMENTS OF INCOME

	Year ended December 31		
	2005	2004	2003
		(in thousands)	
Income:			
Dividends from bank subsidiaries	**$ 223,900**	$ 62,131	$ 149,596
Other	**45,336**	40,227	38,206
	269,236	102,358	187,802
Expenses	**66,824**	58,563	50,272
Income before income taxes and equity in undistributed net income of subsidiaries	**202,412**	43,795	137,530
Income tax benefit	**(8,445)**	(6,420)	(4,177)
	210,857	50,215	141,707
Equity in undistributed net income (loss) of:			
Bank subsidiaries	**(53,640)**	84,525	(20,879)
Non-bank subsidiaries	**8,857**	14,868	15,539
Net Income	**$ 166,074**	$ 149,608	$ 136,367

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31		
	2005	2004	2003
		(in thousands)	
Cash Flows From Operating Activities:			
Net Income	**$ 166,074**	$ 149,608	$ 136,367
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Stock-based compensation	**1,041**	3,900	2,092
(Increase) decrease in other assets	**(1,381)**	(13,004)	1,255
Equity in undistributed net loss (income) of subsidiaries	**44,783**	(99,393)	5,340
(Decrease) increase in other liabilities and payable to non-bank subsidiaries	**(2,653)**	36,859	(4,098)
Total adjustments	**41,790**	(71,638)	4,589
Net cash provided by operating activities	**207,864**	77,970	140,956
Cash Flows From Investing Activities:			
Investment in bank subsidiaries	**(3,700)**	(6,000)	(3,500)
Investment in non-bank subsidiaries	**(100,000)**	-	-
Net cash paid for acquisitions	**(21,724)**	(5,283)	(1,544)
Net cash used in investing activities	**(125,424)**	(11,283)	(5,044)
Cash Flows From Financing Activities:			
Net (decrease) increase in borrowings	**(21,042)**	79,552	(16,678)
Dividends paid	**(85,495)**	(74,802)	(64,628)
Net proceeds from issuance of common stock	**10,991**	7,537	5,087
Increase in long-term debt	**98,342**	-	-
Acquisition of treasury stock	**(85,168)**	(78,966)	(59,699)
Net cash used in financing activities	**(82,372)**	(66,679)	(135,918)
Net Increase (Decrease) in Cash and Cash Equivalents	**68**	8	(6)
Cash and Cash Equivalents at Beginning of Year	**8**	-	6
Cash and Cash Equivalents at End of Year	**$ 76**	$ 8	$ -
Cash paid during the year for:			
Interest	**$ 2,758**	$ 2,889	$ 2,469
Income taxes	**60,539**	54,457	48,924

Management Report on Internal Control Over Financial Reporting

The management of Fulton Financial Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Fulton Financial Corporation's internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based on this assessment, management concluded that, as of December 31, 2005, the company's internal control over financial reporting is effective based on those criteria.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

R. Scott Smith, Jr.
Chairman, Chief Executive Officer and President

Charles J. Nugent
Senior Executive Vice President and
Chief Financial Officer

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Fulton Financial Corporation:

We have audited management's assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting appearing on page 70, that Fulton Financial Corporation maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Fulton Financial Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Fulton Financial Corporation maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, Fulton Financial Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Fulton Financial Corporation and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005, and our report dated March 9, 2006 expressed, an unqualified opinion on those consolidated financial statements.

KPMG LLP

Harrisburg, Pennsylvania
March 9, 2006

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Fulton Financial Corporation:

We have audited the accompanying consolidated balance sheets of Fulton Financial Corporation and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fulton Financial Corporation and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Fulton Financial Corporation and subsidiaries' internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 9, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Harrisburg, Pennsylvania
March 9, 2006

QUARTERLY CONSOLIDATED RESULTS OF OPERATIONS (UNAUDITED)
(in thousands, except per-share data)

	Three Months Ended			
	March 31	June 30	Sept. 30	Dec. 31
FOR THE YEAR 2005				
Interest income	**$ 140,810**	**$ 148,611**	**$ 164,113**	**$ 172,263**
Interest expense	**42,562**	**48,686**	**57,617**	**64,354**
Net interest income	**98,248**	**99,925**	**106,496**	**107,909**
Provision for loan losses	**800**	**725**	**815**	**780**
Other income	**35,853**	**38,315**	**36,152**	**33,948**
Other expenses	**73,828**	**78,189**	**81,537**	**82,737**
Income before income taxes	**59,473**	**59,326**	**60,296**	**58,340**
Income taxes	**18,037**	**17,722**	**18,168**	**17,434**
Net income	**$ 41,436**	**$ 41,604**	**$ 42,128**	**$ 40,906**
Per-share data:				
Net income (basic)	**$ 0.26**	**$ 0.27**	**$ 0.27**	**$ 0.26**
Net income (diluted)	**0.26**	**0.27**	**0.27**	**0.26**
Cash dividends	**0.132**	**0.145**	**0.145**	**0.145**
FOR THE YEAR 2004				
Interest income	$ 113,936	$ 122,024	$ 126,947	$ 130,736
Interest expense	30,969	33,318	34,446	37,261
Net interest income	82,967	88,706	92,501	93,475
Provision for loan losses	1,740	800	1,125	1,052
Other income	32,038	36,663	34,993	35,170
Other expenses	62,344	70,598	74,036	70,537
Income before income taxes	50,921	53,971	52,333	57,056
Income taxes	15,147	16,167	16,324	17,035
Net income	$ 35,774	$ 37,804	$ 36,009	$ 40,021
Per-share data:				
Net income (basic)	$ 0.25	$ 0.25	$ 0.24	$ 0.27
Net income (diluted)	0.25	0.24	0.23	0.26
Cash dividends	0.122	0.132	0.132	0.132

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