FULTON FINANCIAL
CORPORATION

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R. SCOTT SMITH, JR.
CHAIRMAN AND
CHIEF EXECUTIVE OFFICER

March 6, 2009

Via: E-mail to SIGTARP.response@do.treas.gov
and United States Postal Service

Mr. Neil M. Barofsky, Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Ave., N.W., Suite 1064
Washington, DC 20220

RE: Information Request dated February 6, 2009

Dear Mr. Barofsky:

I am writing in response to your letter dated February 6, 2009 requesting that Fulton Financial Corporation ("Fulton") provide a narrative outlining the use of the proceeds of 376,500 shares of preferred stock (the "Preferred Stock") sold to the United States Department of the Treasury (the "Treasury") on December 23, 2008, and the plans for and status of Fulton's compliance with the executive compensation requirements associated with the Treasury's investment in Fulton. We recognize the interest of the United States Congress and the American public in providing the highest degree of transparency with respect to the taxpayers' investment in our company, and we welcome this opportunity to report to you concerning Fulton's use of the proceeds of the Preferred Stock.

Fulton's rationale in applying for participation in the Capital Purchase Program

As legislative bills designed to stabilize and restore confidence in the nation's financial institutions moved through Congress in late September and early October, the financial markets experienced nearly unprecedented volatility and fragility. For example, on September 29, 2008, following the House of Representatives' failure to approve a Senate amendment of an earlier stabilization bill, the Dow Jones Industrial Average experienced its largest, single-day point loss in history. Amidst this turmoil, the Emergency Economic Stabilization Act of 2008 ("EESA") was signed into law on October 3, 2008, and the Treasury announced on October 14, 2008 the Capital Purchase Program (the "CPP") under the Troubled Asset Relief Program authorized under EESA.

In the weeks following the Treasury's announcement of the CPP, Fulton's Board of Directors deliberated on two separate occasions concerning Fulton's potential participation in the CPP. As these deliberations continued, the condition of the nation's economy continued to worsen, and debt and equity markets remained severely constricted. The Board considered a range of projected levels of general economic activity and how those projections could impact Fulton's financial performance, loan portfolio and capital levels. In evaluating the adequacy of Fulton's current capital, the Board of Directors considered the potential for further unforeseen economic events, a pronounced or prolonged decline in economic activity and the acute dislocation in the capital markets, which made the possibility of raising private capital, should it become necessary, uncertain. A number of Fulton's competitors had announced their participation in the CPP, and Fulton's Board was concerned that not participating could later prove to be a competitive disadvantage. The Board (b) (8) (b) (8) and was cognizant of the purpose of the CPP as announced by the Treasury: "to encourage U.S. financial institutions to build capital to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy."[1]

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Fulton's anticipated use of the Capital Purchase Program funds

At the time its application for participation in the CPP was submitted, Fulton anticipated using the proceeds from the sale of the Preferred Stock to strengthen its capital base in the face of growing uncertainty concerning the duration and depth of the developing recession, and its concomitant impact on the performance of Fulton's loan portfolio, and to place Fulton in a position to take advantage of potential opportunities to expand through acquisition, should they arise. Since the Preferred Stock carried a significant cost in the form of dividends to be paid to the Treasury,[2] the need to make the additional capital productive was a paramount concern to Fulton's management.

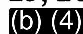
Fulton's management recognized that in order to provide an acceptable return on the additional capital provided by the sale of the Preferred Stock, the new capital would need to be leveraged to support a significantly greater volume of loans. Fulton understood that to achieve that objective in the best interests of all of its stakeholders (its shareholders, including the Treasury, the communities in which it operates, its employees and its customers), Fulton would need to pursue prudently underwritten and appropriately priced loan growth. In order to avoid increasing the risk associated with too great a reliance on short-term federal funds borrowings to fund this leveraged loan growth, which would result in a significant increase in Fulton's exposure to

[1] Treasury Release HP-1207, October 14, 2008.
[2] On February 15, 2009, Fulton paid its initial dividend to the Treasury with respect to the Preferred Stock in the amount of $2.7 million.

interest rate risk, Fulton determined that loan growth would be best funded through growing its subsidiary bank's customer deposits. As Fulton pursued this plan for balanced and disciplined growth in both loans and deposits, Fulton's management planned to have its banking subsidiaries purchase investments for their investment portfolios, on a short-term basis, to provide some return on the proceeds from the Preferred Stock. Over time, as Fulton's subsidiary banks grew their loan portfolios, reliance on returns from the investment portfolio would be diminished.

Fulton's actual use of the Capital Purchase Program funds

Fulton received $376.5 million from the sale of the Preferred Stock to the Treasury on December 23, 2008. As soon as practicable following its receipt, Fulton disbursed the proceeds as follows:


(b) (4)

After giving effect to these transactions, all of the proceeds of the Preferred Stock sold to the Treasury were transferred to Fulton's subsidiary banks, where the funds could be most effectively deployed. (b) (4)

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Money, and to a significant degree, capital, is fungible. Fulton did not segregate (and was not aware of any requirement that it segregate) the proceeds from the sale of the Preferred Stock from its other capital funds, and, following the transfer of the proceeds of the Preferred Stock to Fulton's subsidiary banks, it is difficult to link any particular assets on the balance sheets of Fulton's subsidiary banks to particular elements of their capital. At the time that Fulton completed the sale of the Preferred Stock to the Treasury, all of Fulton's subsidiary banks were considered well capitalized under all regulatory capital measures, and had sufficient capital to support their current activities. For Fulton, like most financial institutions, equity capital has traditionally funded a relatively small portion of its balance sheet. As of September 30, 2008 shareholders' equity funded 9.9% of Fulton's assets.[3] After completion of the sale of the Preferred Stock, shareholders' equity funded 11.5% of Fulton's assets as of December 31, 2008.[4] Fulton views its capital as something to be preserved, rather than spent. Equity capital serves as a cushion to absorb financial losses, which might result from unanticipated credit losses, changes in asset and investment valuations and other unexpected events, which could potentially impact

[3] See Fulton's Quarterly Report for the quarter ended September 30, 2008 filed with the Securities and Exchange Commission on Form 10-Q on November 10, 2008.
[4] See Fulton's Annual Report for the year ended December 31, 2008 filed with the Securities and Exchange Commission on Form 10-K on March 2, 2009.

Fulton's performance.[5] Fulton's capital acts as a critical buffer isolating senior creditors and depositors from such losses. Finally, equity capital provides financial flexibility, enabling Fulton to take advantage of growth opportunities when they arise. Capital not needed for these purposes is typically paid to shareholders in the form of dividends or through repurchases of outstanding shares.[6]

Following the transfer of the proceeds of the Preferred Stock to Fulton's subsidiary banks, the subsidiary banks initially used the funds to reduce short-term borrowings, primarily federal funds borrowings, and to temporarily increase their investment portfolios. The securities purchased were generally seasoned, agency-issued, residential mortgage-backed securities and collateralized mortgage obligations, and, in order to help offset the cost of the Preferred Stock, Fulton's subsidiary banks plan to leverage these investments (in the sense that the investment purchases will exceed the amount of the Preferred Stock proceeds transferred to them by Fulton). In addition to providing investment returns, these securities purchases enabled Fulton's subsidiary banks to improve their asset and liability funding position, reducing their exposure to changes in interest rates. While these investment purchases were of seasoned securities, and would not have directly funded new residential mortgage lending activity, these purchases would have enhanced liquidity in the overall market for mortgage-backed securities, which is needed for efficient functioning of the secondary market for mortgage-backed securities. As Fulton's subsidiary banks' loan portfolios grow, that growth can be funded through one or more of new deposits, short-term borrowings, or cash flows generated by, or proceeds from the sale of, investments in the investment portfolio.

Throughout the period that Fulton was contemplating its application for participation in the CPP, while its application was being considered, and after Fulton was advised of approval of its application, Fulton's subsidiary banks have continuously and diligently pursued lending opportunities with creditworthy borrowers. Although Fulton's subsidiary banks have stood ready to provide such credit, the progressively weakening economy during that period had significantly reduced borrowing demand as both businesses and consumers became more cautious in their purchase and expansion activity. As of December 31, 2008, Fulton's customers had revolving, open-end lines of credit and other commitments to fund loan advances (including loans approved, but not yet funded) with aggregate, unused borrowing capacity of approximately $3.4 billion.[7] By comparison, the level of these unfunded commitments at December 31, 2007 was approximately $4.3 billion, including $0.4 billion of unfunded credit card commitments associated with Fulton's credit card portfolio, which was sold during the second quarter of 2008.[8]

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[5] Fulton's total loans charged off, net of recoveries, increased from $9.7 million in 2007 to $51.7 million in 2008 (see Fulton's Annual Report for the year ended December 31, 2008 filed with the Securities and Exchange Commission on Form 10-K on March 2, 2009).

[6] Under the terms of the Securities Purchase Agreement pursuant to which the Treasury purchased the Preferred Stock, Fulton is generally not permitted, while the Treasury holds the Preferred Stock, to increase its dividend, or repurchase its common stock, without the consent of the Treasury.

[7] See Fulton's Annual Report for the year ended December 31, 2008 filed with the Securities and Exchange Commission on Form 10-K on March 2, 2009.

[8] See Fulton's Annual Report for the year ended December 31, 2007 filed with the Securities and Exchange Commission on Form 10-K on February 29, 2008.

Fulton continues to emphasize its lending activities in originating residential mortgages, and providing home equity lines of credit and loans, consumer loans and financing for small businesses. Although Fulton held the proceeds of the Preferred Stock for only nine calendar days during the fourth quarter of 2008, on an aggregate basis, Fulton grew its loans and leases outstanding (net of unearned income) during the fourth quarter by $219 million, or 1.85%.[9] According to the Treasury's Monthly Lending and Intermediation Snapshot, Summary Analysis October - December 2008, which analyzed lending activity at the twenty largest recipients of funds under the CPP, unemployment rose from 6.5% to 7.2% and 1.5 million jobs were lost as the nation's Gross Domestic Product fell by 3.8% during the fourth quarter of 2008.[10] The Treasury noted that demand for credit by consumers and businesses typically falls during an economic downturn, reflecting reluctance by both lenders and borrowers to take on new risk during uncertain economic times. According to the FDIC's Quarterly Banking Profile, total loans and leases at the nation's FDIC-insured commercial banks declined 1.42% to $6.85 trillion during the fourth quarter of 2008. Against this background, the level of loan growth achieved by Fulton during this period appears to be well in excess of that of the industry as a whole.

In addition to maintaining focus on their traditional lending activities, Fulton's subsidiary banks recently developed and introduced five new residential mortgage loan products that are available to borrowers with good credit. These new products, which are listed below, were designed to fill gaps in residential mortgage loan offerings available for sale through the secondary market. For this reason, Fulton's subsidiary banks intend to retain the loans originated under these programs in their loan portfolios.

- A first-time homebuyer program under which Fulton offers a special rate and terms to reduce customers' closing costs and monthly payments.

- A product through which Fulton finances 80% of the property value through a residential mortgage loan to homeowners and allows borrowers to finance the remainder directly through their builder. This program requries that the builder be a current customer of Fulton. This product enables prospective homeowners who have good credit and solid incomes, but who have limited funds for a downpayment, to purchase a home.

- A "jumbo" mortgage loan product that enables qualified customers to borrow more than the conforming loan limits permissible for mortgage loans purchased by Fannie Mae and Freddie Mac.

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[9] See Fulton's Quarterly Report for the quarter ended September 30, 2008 filed with the Securities and Exchange Commission on Form 10-Q on November 10, 2008, and Fulton's Annual Report for the year ended December 31, 2008 filed with the Securities and Exchange Commission on Form 10-K on March 2, 2009.
[10] On February 27, 2009, the Bureau of Economic Analysis, in release BEA 09-05, reported revised real gross domestic product results that indicated the fourth quarter 2008 decline was 6.2%.

- A residential mortgage loan that enables professionals who complete their advanced post-secondary education and secure a job to purchase a home. These borrowers typically have limited savings, but sizeable, steady incomes to purchase a home.

- A loan product that is available for a non-conforming property; for example, a home where much of the value of that property is in acreage, rather than in the residential structure.

Other impacts of Fulton's receipt of the Capital Purchase Program funds

As mentioned previously, Fulton views its equity capital as a cushion against the adverse impact of unforeseen economic events, unanticipated loan losses and changes in valuation of its other assets and investments. The additional capital provided by the sale of the Preferred Stock to the Treasury improved Fulton's ability to withstand the declines in the credit quality of its loan portfolio without resorting to measures, such as reducing asset levels, to provide an appropriate balance between Fulton's assets and its equity capital. In light of the significant increase in risk posed by the current recession, coupled with constrained, and in some cases dysfunctional, liquidity and capital markets, Fulton may have felt compelled to reduce its balance risk by shrinking its assets. Asset reductions, which the Preferred Stock alleviated, would have likely included curtailing new loan originations and potentially selling assets into an already weak market, which might have exacerbated downward pressure on asset valuations. Without the proceeds of the Preferred Stock, depending on Fulton's financial performance, Fulton may have had to take additional measures to further reduce costs, including job reductions.

Executive Compensation Compliance

Each of Fulton's senior executive officers executed a Waiver, dated December 23, 2008, pursuant to which the senior executive officer waived any claims the senior executive officer may have had against either the United States or Fulton resulting from changes in compensation or benefits required for compliance with the Treasury's regulations issued on October 20, 2008.[11] Each of Fulton's senior executive officers also entered into a letter agreement with Fulton under which the senior executive officer agreed that, solely to the extent required by the provisions of Section 111 of EESA applicable to Fulton and the Treasury's regulations issued on October 20, 2008, during the period that Treasury holds a debt or equity position in Fulton: (i) the senior executive officer shall be ineligible to receive any incentive or bonus compensation based on the achievement of performance goals tied to or affected by Fulton's financial results that the Executive Compensation Committee of the Board of Directors of Fulton (the "Committee") determines includes incentives for the senior executive officer to take unnecessary and excessive risks that threaten the value of Fulton; (ii) the senior executive officer shall be required to forfeit any bonus or incentive compensation paid during the period that Treasury holds a debt or equity position in Fulton based on statements of earnings, gains, or other criteria that are later proven to

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[11] A copy of the form of Waiver was filed as Exhibit 10.2 to the Current Report filed with the Securities and Exchange Commission on Form 8-K on December 24, 2008.

be materially inaccurate; and (iii) Fulton shall be prohibited from paying, and the senior executive officer shall be ineligible to receive, any "golden parachute payment" in connection with the senior executive officer's "applicable severance from employment," within the meaning of Section 111 of EESA and the Treasury's regulation issued on October 20, 2008.[12]

The Committee met on January 20, 2009 and conducted an evaluation of the incentive compensation arrangements in which the Fulton's senior executive officers participate to identify any features of those arrangements that could encourage the senior executive officers to take unnecessary and excessive risks that could threaten the value of Fulton. The Committee's evaluation included: (i) discussing with Fulton's senior risk officers the risks that Fulton faces (along with the risk management controls currently in place) identified by Fulton's Risk Management Committee that could threaten Fulton's value; (ii) identifying whether there are features of the executive compensation program and incentive compensation arrangements that could induce the senior executive officers to take those risks; and (iii) taking any necessary actions to limit the features of Fulton's incentive compensation arrangements to ensure the senior executive officers are not encouraged to take unnecessary and excessive risks that could threaten the value of Fulton. In completing this evaluation, the Committee met with Fulton's senior risk officers to develop a better understanding of the material risks Fulton currently faces, and following this evaluation, the Committee concluded that the incentive compensation arrangements do not encourage the senior executive officers to take unnecessary and excessive risks that threaten the value of Fulton. A certification by the Committee regarding its conclusions will be included in Fulton's annual proxy statement.

Fulton has instituted controls and procedures designed to limit the deduction for remuneration for federal income tax purposes to $500,000 for each of Fulton's senior executive officers.

Following enactment of the American Recovery and Reinvestment Act of 2009 (the "ARRA") on February 17, 2009, Fulton determined to request that its shareholders vote, at Fulton's annual meeting of shareholders to be held on April 29, 2009, on an advisory, non-binding resolution approving the compensation paid to Fulton's senior executive officers. In addition, on February 26, 2009, the Committee met to discuss, on a preliminary basis, the provisions of the ARRA which will affect the compensation arrangements of Fulton's senior executive officers and other employees following the Treasury's adoption of implementing regulations.

[12] A copy of the letter agreement was filed as Exhibit 10.3 to the Current Report filed with the Securities and Exchange Commission on Form 8-K on December 24, 2008.

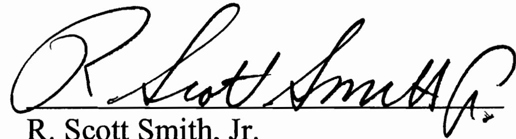
Thank you for this opportunity to share with you Fulton's efforts to utilize the additional capital provided through the sale of the Preferred Stock to the Treasury.

Very truly yours,

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

CERTIFICATION

I, R. Scott Smith, Jr., certify that: I have reviewed this response, and, to the best of my knowledge, this response does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading.



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