

FULTON FINANCIAL CORP  
Form 10-K  
February 26, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

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FORM 10-K

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

For the fiscal year ended December 31, 2015,

or

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

Commission File Number: 0-10587

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FULTON FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania

23-2195389

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

One Penn Square, P. O. Box 4887, Lancaster, Pennsylvania

17604

(Address of principal executive offices)

(Zip Code)

(717) 291-2411

(Registrant's telephone number, including area code)

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

Title of each class

Name of exchange on which registered

Common Stock, \$2.50 par value

The NASDAQ Stock Market, LLC

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

None

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

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The aggregate market value of the voting Common Stock held by non-affiliates of the registrant, based on the average bid and asked prices on June 30, 2015, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$2.3 billion. The number of shares of the registrant's Common Stock outstanding on January 31, 2016 was 173,623,000.

Portions of the Definitive Proxy Statement of the Registrant for the Annual Meeting of Shareholders to be held on May 16, 2016 are incorporated by reference in Part III.

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## PART I

### Item 1. Business

#### General

Fulton Financial Corporation (the Corporation) was incorporated under the laws of Pennsylvania on February 8, 1982 and became a bank holding company through the acquisition of all of the outstanding stock of Fulton Bank on June 30, 1982. In 2000, the Corporation became a financial holding company as defined in the Gramm-Leach-Bliley Act (GLB Act), which gave the Corporation the ability to expand its financial services activities under its holding company structure (See "Competition" and "Supervision and Regulation" below). The Corporation directly owns 100% of the common stock of six community banks and eight non-bank entities. As of December 31, 2015, the Corporation had approximately 3,460 full-time equivalent employees.

The common stock of Fulton Financial Corporation is listed for quotation on the Global Select Market of The NASDAQ Stock Market under the symbol FULT. The Corporation's Internet address is [www.fult.com](http://www.fult.com). Electronic copies of the Corporation's 2015 Annual Report on Form 10-K are available free of charge by visiting "Investor Relations" at [www.fult.com](http://www.fult.com). Electronic copies of quarterly reports on Form 10-Q and current reports on Form 8-K are also available at this Internet address. These reports, as well as any amendments thereto, are posted on the Corporation's website as soon as reasonably practicable after they are electronically filed with the Securities and Exchange Commission (SEC).

#### Bank and Financial Services Subsidiaries

The Corporation's six subsidiary banks are located primarily in suburban or semi-rural geographical markets throughout a five-state region (Pennsylvania, Delaware, Maryland, New Jersey and Virginia). Each of these banking subsidiaries delivers financial services in a highly personalized, community-oriented style that emphasizes relationship banking. Where appropriate, operations are centralized through common platforms and back-office functions. The Corporation has announced that it is developing plans to seek regulatory approval to begin the process of consolidating its six subsidiary banks in connection with a transition to a business model that will be less oriented on geographic boundaries and will instead focus more on alignment with the customer segments the Corporation serves. The Corporation also believes that consolidation will enhance its ability to manage risk more efficiently and effectively through a centralized risk management and compliance function. This multi-year process is expected to eventually result in the Corporation conducting its core banking business through a single subsidiary bank. Consolidation of the bank subsidiaries will result in a single subsidiary bank with greater than \$10 billion of assets, subjecting it to more stringent regulation applicable to institutions that exceed that threshold. See Item 1A. Risk Factors - "Additional growth, particularly at the Corporation's largest subsidiary, Fulton Bank, N.A., would subject it to additional regulation and increased supervision" under "Legal, Compliance and Reputational Risks." The timing of the commencement of this process will depend significantly on the Corporation and its banking subsidiaries making necessary progress in enhancing a largely centralized compliance program designed to comply with the requirements of the Bank Secrecy Act, the USA Patriot Act of 2001 and related anti-money laundering regulations, and establishing, to the satisfaction of the Corporation's banking regulatory agencies, that those enhancements are sustainable to achieve compliance with the regulatory enforcement orders issued to the Corporation and its subsidiary banks by their respective banking regulatory agencies relating to identified deficiencies in that compliance program. See Item 1A. Risk Factors - "The Corporation and its bank subsidiaries are subject to regulatory enforcement orders requiring improvement in compliance functions and remedial actions" under "Legal, Compliance and Reputational Risks."

The Corporation's subsidiary banks are located in areas that are home to a wide range of manufacturing, distribution, health care and other service companies. The Corporation and its banks are not dependent upon one or a few customers or any one industry, and the loss of any single customer or a few customers would not have a material adverse impact on any of the subsidiary banks. However, a large portion of the Corporation's loan portfolio is comprised of commercial loans, commercial mortgage loans and construction loans. See Item 1A. Risk Factors - "Economic downturns and the composition of the Corporation's loan portfolio subject the Corporation to credit risk" under "Economic and Credit Risks."

Each of the subsidiary banks offers a full range of consumer and commercial banking products and services in its local market area. Personal banking services include various checking account and savings deposit products, certificates of deposit and individual retirement accounts. The subsidiary banks offer a variety of consumer lending products to creditworthy customers in their market areas. Secured consumer loan products include home equity loans and lines of credit, which are underwritten based on loan-to-value limits specified in the Corporation's lending policy. Subsidiary banks also offer a variety of fixed and variable-rate products, including construction loans and jumbo loans.

Residential mortgages are offered through Fulton Mortgage Company, which operates as a division of each subsidiary bank. Consumer loan products also include automobile loans, automobile and equipment leases, personal lines of credit and checking account overdraft protection.

Commercial banking services are provided to small and medium sized businesses (generally with sales of less than \$150 million) in the subsidiary banks' market areas. The Corporation's policies limit the maximum total lending commitment to a single borrower

to \$50.0 million as of December 31, 2015, which is below the Corporation's regulatory lending limit. In addition, the Corporation has established lower total lending limits for certain types of lending commitments, and also based on the Corporation's internal risk rating of the borrower. Commercial lending products include commercial, financial, agricultural and real estate loans. Floating, adjustable and fixed rate loans are provided, with floating and adjustable rate loans generally tied to an index such as the Prime Rate or the London Interbank Offered Rate (LIBOR), as well as interest rate swaps. The commercial lending policy of the Corporation's subsidiary banks encourages relationship banking and provides strict guidelines related to customer creditworthiness and collateral requirements for secured loans. In addition, equipment leasing, letters of credit, cash management services and traditional deposit products are offered to commercial customers.

Investment management, trust, brokerage, insurance and investment advisory services are offered to consumer and commercial banking customers in the market areas serviced by the Corporation's subsidiary banks by Fulton Financial Advisors, a division of the Corporation's Fulton Bank, N.A. subsidiary bank.

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

The following table provides certain information for the Corporation's banking subsidiaries as of December 31, 2015:

Subsidiary	Main Office Location	Total Assets	Total Deposits	Branches (1)
		(dollars in millions)		
Fulton Bank, N.A.	Lancaster, PA	\$9,835	\$7,692	112
Fulton Bank of New Jersey	Mt. Laurel, NJ	3,677	3,100	65
The Columbia Bank	Columbia, MD	2,115	1,697	31
Lafayette Ambassador Bank	Bethlehem, PA	1,526	1,228	21
FNB Bank, N.A.	Danville, PA	363	267	7
Swineford National Bank	Middleburg, PA	306	259	7
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(1) Remote service facilities (mainly stand-alone automated teller machines) are excluded. See additional information in Item 2. Properties.

#### Non-Bank Subsidiaries

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

The Corporation owns 100% of the common stock of three non-bank subsidiaries which are not consolidated for financial reporting purposes. The following table provides information for these non-bank subsidiaries, whose sole assets consist of junior subordinated deferrable interest debentures issued by the Corporation, as of December 31, 2015:

Subsidiary	State of Incorporation	Total Assets
		(dollars in thousands)
Columbia Bancorp Statutory Trust	Delaware	\$6,186
Columbia Bancorp Statutory Trust II	Delaware	4,124

#### Competition

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

The industry is also highly competitive due, in part, to the GLB Act. As a result of the GLB Act, there is a great deal of competition from many types of entities for customers that were traditionally served only by the banking industry. Under the GLB Act, banks, insurance companies and securities firms may affiliate under a financial holding company structure, allowing expansion into non-banking financial services activities that were previously restricted. These activities include a full range of banking, securities and insurance activities, including securities and insurance underwriting, issuing and selling annuities and merchant banking activities. While the Corporation does not currently engage in many of these activities, the ability to do so may enhance the ability of the Corporation to compete in the future.



## Market Share

Deposit market share information is compiled as of June 30 of each year by the Federal Deposit Insurance Corporation (FDIC). The Corporation's banks maintain branch offices in 52 counties across five states. In 15 of these counties, the Corporation ranked in the top 5 in deposit market share (based on deposits as of June 30, 2015). The following table summarizes information about the counties in which the Corporation has branch offices and its market position in each county.

County	State	Population (2015 Est.)	Banking Subsidiary	No. of Financial Institutions		Deposit Market Share (June 30, 2015)		
				Banks/ Thrifts	Credit Unions	Rank	%	
Lancaster	PA	538,000	Fulton Bank, N.A.	21	8	1	25.0	%
Berks	PA	414,000	Fulton Bank, N.A.	20	15	8	3.2	%
Bucks	PA	627,000	Fulton Bank, N.A.	38	22	17	1.8	%
Centre	PA	161,000	Fulton Bank, N.A.	17	5	11	3.4	%
Chester	PA	518,000	Fulton Bank, N.A.	32	9	9	3.3	%
Columbia	PA	67,000	FNB Bank, N.A.	6	2	5	4.2	%
Cumberland	PA	247,000	Fulton Bank, N.A.	19	11	13	1.9	%
Dauphin	PA	273,000	Fulton Bank, N.A.	16	7	6	4.2	%
Delaware	PA	565,000	Fulton Bank, N.A.	28	13	30	0.3	%
Lebanon	PA	137,000	Fulton Bank, N.A.	12	1	1	31.4	%
Lehigh	PA	360,000	Lafayette Ambassador Bank	21	17	7	4.1	%
Lycoming	PA	116,000	FNB Bank, N.A.	11	12	14	0.8	%
Montgomery	PA	822,000	Fulton Bank, N.A.	40	27	25	0.4	%
Montour	PA	19,000	FNB Bank, N.A.	5	1	2	24.3	%
Northampton	PA	302,000	Lafayette Ambassador Bank	16	14	4	13.2	%
Northumberland	PA	94,000	FNB Bank, N.A.	18	3	9	3.7	%
			Swineford National Bank			14	1.9	%
Schuylkill	PA	145,000	Fulton Bank, N.A.	14	7	10	4.0	%
Snyder	PA	41,000	Swineford National Bank	8	—	2	26.5	%
Union	PA	45,000	Swineford National Bank	8	1	5	6.9	%
York	PA	443,000	Fulton Bank, N.A.	15	13	4	10.6	%
New Castle	DE	558,000	Fulton Bank, N.A.	15	35	12	0.2	%
Sussex	DE	216,000	Fulton Bank, N.A.	15	2	3	8.1	%
Anne Arundel	MD	567,000	The Columbia Bank	29	15	21	0.3	%
Baltimore	MD	833,000	The Columbia Bank	37	21	23	0.8	%
Baltimore City	MD	623,000	The Columbia Bank	30	19	12	0.3	%
Cecil	MD	103,000	The Columbia Bank	7	4	3	13.5	%
Frederick	MD	247,000	The Columbia Bank	17	6	15	0.8	%
Howard	MD	317,000	The Columbia Bank	20	5	5	8.7	%
Montgomery	MD	1,049,000	The Columbia Bank	32	22	36	0.2	%
Prince George's	MD	919,000	The Columbia Bank	19	20	21	0.7	%
Washington	MD	150,000	The Columbia Bank	12	3	2	20.4	%
Atlantic	NJ	275,000	Fulton Bank of New Jersey	16	9	12	1.4	%
Burlington	NJ	449,000	Fulton Bank of New Jersey	20	18	16	0.9	%

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Camden	NJ	510,000	Fulton Bank of New Jersey	21	14	11	2.3	%
Cumberland	NJ	157,000	Fulton Bank of New Jersey	12	6	13	1.9	%
Gloucester	NJ	292,000	Fulton Bank of New Jersey	23	6	2	14.3	%

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County	State	Population (2015 Est.)	Banking Subsidiary	No. of Financial Institutions		Deposit Market Share (June 30, 2015)		
				Banks/ Thrifts	Credit Unions	Rank	%	
Hunterdon	NJ	126,000	Fulton Bank of New Jersey	16	7	11	2.5	%
Mercer	NJ	373,000	Fulton Bank of New Jersey	24	26	19	0.9	%
Middlesex	NJ	845,000	Fulton Bank of New Jersey	46	38	30	0.3	%
Monmouth	NJ	629,000	Fulton Bank of New Jersey	27	12	26	0.5	%
Morris	NJ	501,000	Fulton Bank of New Jersey	31	27	15	1.3	%
Ocean	NJ	590,000	Fulton Bank of New Jersey	21	7	18	0.8	%
Salem	NJ	64,000	Fulton Bank of New Jersey	8	3	1	25.2	%
Somerset	NJ	335,000	Fulton Bank of New Jersey	29	10	9	2.6	%
Warren	NJ	107,000	Fulton Bank of New Jersey	13	5	5	8.4	%
Chesapeake City	VA	238,000	Fulton Bank, N.A.	14	10	10	1.6	%
Fairfax	VA	1,144,000	Fulton Bank, N.A.	36	19	41	0.1	%
Henrico	VA	325,000	Fulton Bank, N.A.	24	18	18	0.7	%
Manassas	VA	43,000	Fulton Bank, N.A.	14	1	11	2.0	%
Newport News	VA	184,000	Fulton Bank, N.A.	12	4	15	0.5	%
Richmond City	VA	221,000	Fulton Bank, N.A.	18	7	15	0.2	%
Virginia Beach	VA	455,000	Fulton Bank, N.A.	16	7	10	1.6	%

#### Supervision and Regulation

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

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

Subsidiary	Charter	Primary Regulator(s)
Fulton Bank, N.A.	National	OCC
Fulton Bank of New Jersey	NJ	NJ/FDIC
The Columbia Bank	MD	MD/FDIC
Lafayette Ambassador Bank	PA	PA/Federal Reserve
FNB Bank, N.A.	National	OCC
Swineford National Bank	National	OCC
Fulton Financial Corporation (Parent Company)	N/A	Federal Reserve

OCC - Office of the Comptroller of the Currency

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

The Corporation is subject to regulation and examination by the Federal Reserve Bank, and is required to file periodic reports and to provide additional information that the Federal Reserve may require. In addition, the Federal Reserve must approve certain proposed changes in organizational structure or other business activities before they occur. The BHCA imposes certain restrictions

upon the Corporation regarding the acquisition of substantially all of the assets of, or direct or indirect ownership or control of, any bank for which it is not already the majority owner.

**Dodd-Frank Act** - The Dodd-Frank Act was enacted in July 2010 and resulted in significant financial regulatory reform. The Dodd-Frank Act also changed the responsibilities of the current federal banking regulators. Among other things, the Dodd-Frank Act created the Financial Stability Oversight Council, with oversight authority for monitoring and regulating systemic risk, and the Consumer Financial Protection Bureau (CFPB), which has broad regulatory and enforcement powers over consumer financial products and services. Effective July 21, 2011, the CFPB became responsible for administering and enforcing numerous federal consumer financial laws enumerated in the Dodd-Frank Act. The Dodd-Frank Act also provided that, for banks with total assets of more than \$10 billion, the CFPB would have exclusive or primary authority to examine those banks for, and enforce compliance with, the federal consumer financial laws. As of December 31, 2015, none of the Corporation's subsidiary banks had total assets of more than \$10 billion; however, the Corporation's largest subsidiary bank, Fulton Bank, N. A., had \$9.8 billion in assets. Although not subject to CFPB examination, the Corporation's subsidiary banks remain subject to the review and supervision of other applicable regulatory authorities, and such authorities may enforce compliance with regulations issued by the CFPB. In the event that Fulton Bank, N.A.'s total assets exceed \$10 billion in the future, Fulton Bank, N.A. would become subject to supervision, examination and enforcement by the CFPB.

**Stress testing** - In October 2012, the Board of Governors of the Federal Reserve System (FRB) issued final rules regarding company-run stress testing. In accordance with these rules, the Corporation is required to conduct an annual stress test in the manner specified, and using assumptions for baseline, adverse and severely adverse scenarios announced by the FRB. The stress test is designed to assess the potential impact of the various scenarios on the Corporation's earnings, capital levels and capital ratios over a nine-quarter time horizon. The Corporation's board of directors and its senior management are required to consider the results of the stress test in the normal course of business, including as part of the Corporation's capital planning process and the evaluation of the adequacy of its capital. Public disclosure of summary stress test results under the severely adverse scenario began in June 2015 for stress tests that commenced in the fall of 2014. The Corporation believes that both the quality and magnitude of its capital base are sufficient to support its current operations given its risk profile. The results of the annual stress testing process did not lead the Corporation to raise additional capital or alter the mix of its capital components. Pursuant to final rules published in October 2014 and December 2015, the FRB modified the start date of the stress test cycles so that, going forward, stress tests must be conducted using financial data as of December 31 of the prior year, the results of the stress test must be reported to the FRB on or before July 31 and a summary of the results of the stress test must be publicly disclosed between October 15 and October 31. Under similar rules adopted by the OCC, national banks with total consolidated assets of more than \$10 billion are also required to conduct annual stress tests. Although the total consolidated assets of Fulton Bank, N.A., the Corporation's largest subsidiary bank, are less than \$10 billion, if Fulton Bank, N.A.'s assets exceed \$10 billion in the future, it will become subject to the OCC's stress test rules.

**Residential Lending Laws** - As a residential mortgage lender, the Corporation and its bank subsidiaries are subject to multiple federal consumer protection statutes and regulations, including, but not limited to, the Truth-In-Lending Act (TILA), the Home Mortgage Disclosure Act, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act, the Fair Credit Reporting Act, the Fair Debt Collection Act and the Flood Disaster Protection Act. Failure to comply with these and similar statutes and regulations can result in the Corporation and its bank subsidiaries becoming subject to formal or informal enforcement actions, the imposition of civil money penalties and consumer litigation.

**Ability-to-pay rules and qualified mortgages** - As required by the Dodd-Frank Act, the CFPB issued a series of final rules in January 2013 amending Regulation Z, implementing the TILA, which requires mortgage lenders to make a reasonable and good faith determination, based on verified and documented information, that a consumer applying for a residential mortgage loan has a reasonable ability to repay the loan according to its terms. These final rules prohibit creditors, such as the Corporation's bank subsidiaries, from extending residential mortgage loans without regard for the consumer's ability to repay and add restrictions and requirements to residential mortgage origination and servicing practices. In addition, these rules restrict the imposition of prepayment penalties and compensation practices relating

to residential mortgage loan origination. Mortgage lenders are required to determine consumers' ability to repay in one of two ways. The first alternative requires the mortgage lender to consider eight underwriting factors when making the credit decision. Alternatively, the mortgage lender can originate "qualified mortgages," which are entitled to a presumption that the creditor making the loan satisfied the ability-to-repay requirements. In general, a qualified mortgage is a residential mortgage loan that does not have certain high risk features, such as negative amortization, interest-only payments, balloon payments, or a term exceeding 30 years. In addition, to be a qualified mortgage, the points and fees paid by a consumer cannot exceed 3% of the total loan amount and the borrower's total debt-to-income ratio must be no higher than 43% (subject to certain limited exceptions for loans eligible for purchase, guarantee or insurance by a government sponsored entity or a federal agency).

Integrated disclosures under the Real Estate Settlement Procedures Act and the Truth in Lending Act - As required by the Dodd-Frank Act, the CFPB issued final rules in December 2013 revising and integrating previously separate disclosures required under

the Real Estate Settlement Procedures Act (RESPA) and the TILA in connection with certain closed-end consumer mortgage loans. These final rules became effective August 1, 2015 and require lenders to provide a new Loan Estimate, combining content from the former Good Faith Estimate required under RESPA and the initial disclosures required under TILA, not later than the third business day after submission of a loan application, and a new Closing Disclosure, combining content of the former HUD-1 Settlement Statement required under RESPA and the final disclosures required under TILA, at least three days prior to the loan closing.

**Consumer Financial Protection Enforcement** - The CFPB has exclusive examination and primary enforcement authority with respect to compliance with federal consumer financial protection laws and regulations by institutions under its supervision and is authorized, individually or jointly with the federal bank regulatory agencies (the Agencies), to conduct investigations to determine whether any person is, or has, engaged in conduct that violates such laws or regulations. The CFPB may bring an administrative enforcement proceeding or civil action in Federal district court. In addition, in accordance with a memorandum of understanding entered into between the CFPB and the Department of Justice (DOJ), the two agencies have agreed to coordinate efforts related to enforcing the fair lending laws, which includes information sharing and conducting joint investigations. As an independent bureau within the FRB, the CFPB may impose requirements that are more severe than those of the other bank regulatory agencies. During 2015, the CFPB and the DOJ pursued a number of enforcement actions against depository institutions with respect to compliance with fair lending laws.

**Volcker Rule** - As mandated by the Dodd-Frank Act, in December 2013, the OCC, FRB, FDIC, SEC and Commodity Futures Trading Commission issued final rulings (the Final Rules) implementing certain prohibitions and restrictions on the ability of a banking entity and non-bank financial company supervised by the FRB to engage in proprietary trading and have certain ownership interests in, or relationships with, a "covered fund" (the so-called Volcker Rule). The Final Rules generally treat as a covered fund any entity that would be an investment company under the Investment Company Act of 1940 (the 1940 Act) but for the application of the exemptions from SEC registration set forth in Section 3(c)(1) (fewer than 100 beneficial owners) or Section 3(c)(7) (qualified purchasers) of the 1940 Act. The Final Rules also require regulated entities to establish an internal compliance program that is consistent with the extent to which it engages in proprietary trading and covered fund activities covered by the Volcker Rule. Although the Final Rules provide some tiering of compliance and reporting obligations based on size, the fundamental prohibitions of the Volcker Rule apply to banking entities of any size, including the Corporation. In December 2014, the FRB extended, until July 21, 2016, the date by which banking entities must conform their covered fund activities and investments to the requirements of the Final Rules, and announced its intention to grant an additional one-year extension of the conformance period to July 21, 2017. The Corporation does not engage in proprietary trading or in any other activities prohibited by the Final Rules. Based on the Corporation's evaluation of its investments, none fall within the definition of a "covered fund" and would need to be disposed of by July 21, 2016 or any further extension of the conformance date that maybe granted by the FRB. Therefore, it does not currently expect that the Final Rules will have a material effect on its business, financial condition or results of operations.

**Capital Requirements** - There are a number of restrictions on financial and bank holding companies and FDIC-insured depository subsidiaries that are designed to minimize potential loss to depositors and the FDIC insurance funds. Also, a bank holding company is required to serve as a source of financial strength to its depository institution subsidiaries and to commit resources to support such institutions in circumstances where it might not do so absent such policy. Under the BHCA, the FRB has the authority to require a bank holding company to terminate any activity or to relinquish control of a non-bank subsidiary upon the FRB's determination that such activity or control constitutes a serious risk to the financial soundness and stability of a depository institution subsidiary of the bank holding company. The Basel Committee on Banking Supervision (Basel) is a committee of central banks and bank regulators from major industrialized countries that develops broad policy guidelines for use by each country's regulators with the purpose of ensuring that financial institutions have adequate capital given the risk levels of assets and off-balance sheet financial instruments. In December 2010, Basel released frameworks for strengthening international capital and liquidity regulations, referred to as Basel III.

In July 2013, the FRB approved final rules (the U.S. Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations and implementing the BASEL's December 2010 framework for

strengthening international capital standards. The U.S. Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions. The new minimum regulatory capital requirements established by the U.S. Basel III Capital Rules became effective for the Corporation on January 1, 2015, and will be fully phased in on January 1, 2019. The U.S. Basel III Capital Rules require the Corporation and its bank subsidiaries to:

- Meet a new minimum Common Equity Tier 1 capital ratio of 4.50% of risk-weighted assets and a minimum Tier 1 capital ratio of 6.00% of risk-weighted assets;



Continue to require the current minimum Total capital ratio of 8.00% of risk-weighted assets and the minimum Tier 1 leverage capital ratio of 4.00% of average assets; and

Comply with a revised definition of capital to improve the ability of regulatory capital instruments to absorb losses.

Certain non-qualifying capital instruments, including cumulative preferred stock and TruPS, are being phased out as a component of Tier 1 capital for institutions of the Corporation's size. In July 2015, the previously outstanding trust preferred securities issued by Fulton Capital Trust I were redeemed.

The U.S. Basel III Capital Rules use a standardized approach for risk weightings that expand the risk-weightings for assets and off balance sheet exposures from the previous 0%, 20%, 50% and 100% categories to a much larger and more risk-sensitive number of categories, depending on the nature of the assets and off-balance sheet exposures and resulting in higher risk weights for a variety of asset categories.

When fully phased in on January 1, 2019, the Corporation and its bank subsidiaries will also be required to maintain a "capital conservation buffer" of 2.50% above the minimum risk-based capital requirements. The required minimum capital conservation buffer began to be phased in incrementally, starting at 0.625%, on January 1, 2016, and will increase to 1.25% on January 1, 2017, 1.875% on January 1, 2018 and 2.50% on January 1, 2019. The rules provide that the failure to maintain the "capital conservation buffer" will result in restrictions on capital distributions and discretionary cash bonus payments to executive officers. As a result, under the U.S. Basel III Capital Rules, if any of the Corporation's bank subsidiaries fails to maintain the required minimum capital conservation buffer, the Corporation will be subject to limits, and possibly prohibitions, on its ability to obtain capital distributions from such subsidiaries. If the Corporation does not receive sufficient cash dividends from its bank subsidiaries, it may not have sufficient funds to pay dividends on its capital stock, service its debt obligations or repurchase its common stock. In addition, the restrictions on payments of discretionary cash bonuses to executive officers may make it more difficult for the Corporation to retain key personnel.

As of December 31, 2015, the Corporation met the fully-phased in minimum capital requirements, including the new capital conservation buffer, as prescribed in the U.S. Basel III Capital Rules.

The Basel III liquidity framework also includes new liquidity requirements that require financial institutions to maintain increased levels of liquid assets or alter their strategies for liquidity management. The Basel III liquidity framework requires banks and bank holding companies to measure their liquidity against specific ratios.

In September 2014, the FRB approved final rules (the U.S. Liquidity Coverage Ratio Rule) implementing portions of the Basel III liquidity framework for large, internationally active banking organizations, generally those having \$250 billion or more in total assets, and similar, but less stringent rules, applicable to bank holding companies with consolidated assets of \$50 billion or more. The U.S. Liquidity Coverage Ratio Rule requires banking organizations to maintain a Liquidity Coverage Ratio, or LCR, that is designed to ensure that sufficient high quality liquid resources are available for a one month period in case of a stress scenario. Impacted financial institutions are required to be compliant with the U.S. Liquidity Coverage Ratio Rule by January 1, 2017. Because the Corporation's total assets and the scope of its operations do not currently meet the thresholds set forth in the U.S. Liquidity Coverage Ratio Rule, the Corporation is not currently required to maintain a minimum LCR.

The Basel III liquidity framework also introduced a second ratio, referred to as the Net Stable Funding Ratio (NSFR), which is designed to promote funding resiliency over longer-term time horizons by creating additional incentives for banks to fund their activities with more stable sources of funding on an ongoing structural basis. This new liquidity standard is subject to further rulemaking. To date, U.S. banking regulators have not proposed any additional liquidity rules. Because of the Corporation's size, neither the U.S. Liquidity Coverage Ratio Rule nor any additional proposed rules under the Basel III liquidity framework are applicable to it.

Prompt Corrective Regulatory Action - The Federal Deposit Insurance Corporation Improvement Act (FDICIA) established a system of prompt corrective action to resolve the problems of undercapitalized institutions. Under this system, the federal bank regulators are required to take certain, and authorized to take other, supervisory actions against undercapitalized institutions, based upon five categories of capitalization which FDICIA created: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized," the severity of which depends upon the institution's degree of capitalization. Generally, a capital

restoration plan must be filed with the institution's primary federal regulator within 45 days of the date an institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," and the plan must be guaranteed by any parent holding company. In addition, various mandatory supervisory actions become immediately applicable to the institution, including restrictions on growth of assets and other forms of expansion. Prior to January 1, 2015, an insured depository institution was treated as well capitalized if its total risk-based capital ratio was 10.00% or greater, its Tier 1 risk-based capital ratio was 6.00% or greater and its Tier 1 leverage capital ratio was 5.00% or greater, and it was not subject to any order or directive by its primary federal regulator to meet a specific capital level. Effective January 1, 2015, an insured depository institution is treated as well capitalized if its total risk-based capital ratio is 10.00% or greater, its Tier 1 risk-

based capital ratio is 8.00% or greater, its Common Equity Tier 1 risk-based capital ratio is 6.50% or greater and its Tier 1 leverage capital ratio is 5.00% or greater, and it is not subject to any order or directive to meet a specific capital level. As of December 31, 2015, each of the Corporation's bank subsidiaries' capital ratios were above the minimum levels required to be considered "well capitalized" by its primary federal regulator.

**Loans and Dividends from Subsidiary Banks** - There are various restrictions on the extent to which the Corporation's bank subsidiaries can make loans or extensions of credit to, or enter into certain transactions with, its affiliates, which would include the Corporation and its non-banking subsidiaries. In general, these restrictions require that such loans be secured by designated amounts of specified collateral and are limited, as to any one of the Corporation or its non-bank subsidiaries, to 10% of the lending bank's regulatory capital (20% in the aggregate to all such entities). The Dodd-Frank Act expanded these restrictions, effective in July 2012, to cover securities lending, repurchase agreement and derivatives activities that the Corporation's bank subsidiaries may have with an affiliate.

For safety and soundness reasons, banking regulations also limit the amount of cash that can be transferred from subsidiary banks to the Parent Company in the form of dividends. Dividend limitations vary, depending on the subsidiary bank's charter and whether or not it is a member of the Federal Reserve System. Generally, subsidiaries are prohibited from paying dividends when doing so would cause them to fall below the regulatory minimum capital levels. Additionally, limits may exist on paying dividends in excess of net income for specified periods. See "Note 11 - Regulatory Matters," in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data for additional information regarding regulatory capital and dividend and loan limitations.

**Federal Deposit Insurance** - Substantially all of the deposits of the Corporation's subsidiary banks are insured up to the applicable limits by the Deposit Insurance Fund (DIF) of the FDIC, generally up to \$250,000 per insured depositor. The subsidiary banks pay deposit insurance premiums based on assessment rates established by the FDIC. The FDIC has established a risk-based assessment system under which institutions are classified and pay premiums according to their perceived risk to the DIF. An institution's base assessment rate is generally subject to following adjustments: (1) a decrease for the institution's long-term unsecured debt, including most senior and subordinated debt, (2) an increase for brokered deposits above a threshold amount and (3) an increase for unsecured debt held that is issued by another insured depository institution.

On April 1, 2011, as required by the Dodd-Frank Act, the deposit insurance assessment base changed from total domestic deposits to average total assets, minus average tangible equity. In addition, the FDIC also created a two scorecard system, one for large depository institutions that have \$10 billion or more in assets and another for highly complex institutions that have \$50 billion or more in assets. As of December 31, 2015, none of the Corporation's individual subsidiary banks had assets of \$10 billion or more and, therefore, did not meet the classification of large depository institutions.

The FDIC annually establishes for the DIF a designated reserve ratio, or DRR, of estimated insured deposits. The FDIC has announced that the DRR for 2016 will remain at 2.00%, which is the same ratio that has been in effect since January 1, 2011. The FDIC is authorized to change deposit insurance assessment rates as necessary to maintain the DRR, without further notice-and-comment rulemaking, provided that: (1) no such adjustment can be greater than three basis points from one quarter to the next, (2) adjustments cannot result in rates more than three basis points above or below the base rates and (3) rates cannot be negative.

The Dodd-Frank Act increased the minimum DIF reserve ratio to 1.35% of insured deposits, which must be reached by September 30, 2020, and provides that, in setting the assessment rates necessary to meet the new requirement, the FDIC shall offset the effect of this provision on insured depository institutions with total consolidated assets of less than \$10 billion, so that more of the cost of raising the reserve ratio will be borne by the institutions with more than \$10 billion in assets. In October 2010, the FDIC adopted a restoration plan to ensure that the DIF reserve ratio reaches 1.35% by September 30, 2020.

On October 22, 2015, the FDIC issued a proposal to increase the reserve ratio for the DIF to the minimum level of 1.35% as required by the Reform Act. The proposed rule would impose on insured depository institutions with \$10 billion or more in total consolidated assets a quarterly surcharge equal to an annual rate of 4.5 basis points applied to the deposit insurance assessment base, after making certain adjustments. If the rule is adopted as proposed, the FDIC

expects that these surcharges would commence in 2016 and continue for approximately eight quarters; however, if the reserve ratio for the DIF does not reach the required level by December 31, 2018, the FDIC would impose a shortfall assessment on March 31, 2019, which would be collected on June 30, 2019. To the extent that any of the Corporation's subsidiary banks' assets exceeds \$10 billion in the future, such rulemaking could result in an increase in the deposit insurance assessments for such banks.

USA Patriot Act - Anti-terrorism legislation enacted under the USA Patriot Act of 2001 (Patriot Act) expanded the scope of anti-money laundering laws and regulations and imposed significant new compliance obligations for financial institutions, including the Corporation's subsidiary banks. These regulations include obligations to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing.

Among other requirements, the Patriot Act and the related regulations impose the following requirements with respect to financial institutions:

• Establishment of anti-money laundering programs;

• Establishment of a program specifying procedures for obtaining identifying information from customers seeking to open new accounts, including verifying the identity of customers within a reasonable period of time;

• Establishment of enhanced due diligence policies, procedures and controls designed to detect and report money laundering; and

• Prohibition on correspondent accounts for foreign shell banks and compliance with recordkeeping obligations with respect to correspondent accounts of foreign banks.

Failure to comply with the Patriot Act's requirements could have serious legal, financial, regulatory and reputational consequences. In addition, bank regulators will consider a holding company's effectiveness in combating money laundering when ruling on BHCA and Bank Merger Act applications. The Corporation has adopted policies, procedures and controls to address compliance with the Patriot Act and will continue to revise and update its policies, procedures and controls to reflect required changes. The Corporation and its banking subsidiaries are currently subject to regulatory enforcement orders (the Consent Orders) issued by bank regulatory agencies relating to identified deficiencies in a largely centralized compliance program (the BSA/AML Compliance Program) designed to comply with the Bank Secrecy Act, the Patriot Act and related anti-money laundering regulations (the BSA/AML Requirements). The Consent Orders require, among other things, that the Corporation and its banking subsidiaries review, assess and take actions to strengthen and enhance the BSA/AML Compliance Program, and, in some cases, conduct retrospective reviews of past account activity and transactions, as well as certain reports filed in accordance with the BSA/AML Requirements, to determine whether suspicious activity and certain transactions in currency were properly identified and reported in accordance with the BSA/AML Requirements. See Item 1A. Risk Factors - "The Corporation and its bank subsidiaries are subject to regulatory enforcement orders requiring improvement in compliance functions and remedial actions" under "Legal, Compliance and Reputational Risks;" Item 3. Legal Proceedings; "Regulatory Enforcement Orders," under "Overview and Outlook" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; and "Note 11 - Regulatory Matters," in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

Commercial Real Estate Guidance - In December 2015, the Agencies released a statement entitled "Statement on Prudent Risk Management for Commercial Real Estate Lending" (the CRE Statement). In the CRE Statement, the Agencies express concerns with institutions which ease commercial real estate underwriting standards, direct financial institutions to maintain underwriting discipline and exercise risk management practices to identify, measure and monitor lending risks, and indicate that they will continue to pay special attention to commercial real estate lending activities and concentrations going forward. The Agencies previously issued guidance in December 2006, entitled "Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices," which states that an institution is potentially exposed to significant commercial real estate concentration risk, and should employ enhanced risk management practices, where (1) total commercial real estate loans represents 300% or more of its total capital and (2) the outstanding balance of such institution's commercial real estate loan portfolio has increased by 50% or more during the prior 36 months.

Community Reinvestment - Under the Community Reinvestment Act (CRA), each of the Corporation's subsidiary banks has a continuing and affirmative obligation, consistent with its safe and sound operation, to ascertain and meet the credit needs of its entire community, including low and moderate income areas. The CRA does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA requires an institution's primary federal regulator, in connection with its examination of the institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The assessment focuses on three tests: (1) a lending test, to evaluate the institution's record of making loans, including community development loans, in its designated assessment areas; (2)

an investment test, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and areas and small businesses; and (3) a service test, to evaluate the institution's delivery of banking services throughout its CRA assessment area, including low and moderate income areas. The CRA also requires all institutions to make public disclosure of their CRA ratings. As of December 31, 2015, all of the Corporation's subsidiary banks are rated at least as "satisfactory." Regulations require that the Corporation's subsidiary banks publicly disclose certain agreements that are in fulfillment of CRA. None of the Corporation's subsidiary banks are party to any such agreements at this time.

Standards for Safety and Soundness - Pursuant to the requirements of FDICIA, as amended by the Riegle Community Development and Regulatory Improvement Act of 1994, the federal bank regulatory agencies adopted guidelines establishing general standards relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The

guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. An institution must submit a compliance plan to its regulator if it is notified that it is not satisfying any such safety and soundness standards. If the institution fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance plan, the regulator must issue an order directing corrective actions and may issue an order directing other actions of the types to which a significantly undercapitalized institution is subject under the "prompt corrective action" provisions of FDICIA. If the institution fails to comply with such an order, the regulator may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Privacy Protection - The Corporation's bank subsidiaries are subject to regulations implementing the privacy protection provisions of the GLB Act. These regulations require each of the Corporation's bank subsidiaries to disclose its privacy policy, including identifying with whom it shares "nonpublic personal information," to customers at the time of establishing the customer relationship and annually thereafter. The regulations also require the bank to provide its customers with initial and annual notices that accurately reflect its privacy policies and practices. In addition, to the extent its sharing of such information is not covered by an exception, the bank is required to provide its customers with the ability to "opt-out" of having the bank share their nonpublic personal information with unaffiliated third parties.

The Corporation's bank subsidiaries are subject to regulatory guidelines establishing standards for safeguarding customer information. These regulations implement certain provisions of the GLB Act. The guidelines describe the federal bank regulatory agencies' expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to ensure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer.

Federal Reserve System - FRB regulations require depository institutions to maintain cash reserves against their transaction accounts (primarily NOW and demand deposit accounts). A reserve of 3% is to be maintained against aggregate transaction accounts between \$15.2 million and \$110.2 million (subject to adjustment by the FRB) plus a reserve of 10% (subject to adjustment by the FRB between 8% and 14%) against that portion of total transaction accounts in excess of \$110.2 million. The first \$15.2 million of otherwise reservable balances (subject to adjustment by the FRB) is exempt from the reserve requirements. Each of the Corporation's bank subsidiaries is in compliance with the foregoing requirements.

Required reserves must be maintained in the form of either vault cash, an account at a Federal Reserve Bank or a pass-through account as defined by the FRB. Pursuant to the Emergency Economic Stabilization Act of 2008, the Federal Reserve Banks pay interest on depository institutions' required and excess reserve balances. The interest rate paid on required reserve balances is currently the average target federal funds rate over the reserve maintenance period. The rate on excess balances will be set equal to the lowest target federal funds rate in effect during the reserve maintenance period.

Federal Securities Laws - The Corporation is subject to the periodic reporting, proxy solicitation, tender offer, insider trading, corporate governance and other requirements under the Securities Exchange Act of 1934. Among other things, the federal securities laws require management to issue a report on the effectiveness of its internal controls over financial reporting. In addition, the Corporation's independent registered public accountants are required to issue an opinion on the effectiveness of the Corporation's internal control over financial reporting. These reports can be found in Part II, Item 8, "Financial Statements and Supplementary Data." Certifications of the Chief Executive Officer and the Chief Financial Officer as required by Sarbanes-Oxley and the resulting SEC rules can be found in the

"Signatures" and "Exhibits" sections.

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## Executive Officers

As of December 31, 2015, the executive officers of the Corporation are as follows:

Name	Age	Office Held and Term of Office
E. Philip Wenger	58	Director of the Corporation since 2009. Mr. Wenger was appointed Chairman of the Board, President and Chief Executive Officer of the Corporation in January 2013. He previously served as President and Chief Operating Officer of the Corporation from 2008 to 2012, a Director of Fulton Bank, N.A. from 2003 to 2009, Chairman of Fulton Bank, N.A. from 2006 to 2009 and has been employed by the Corporation in a number of positions since 1979.
Patrick S. Barrett	52	Senior Executive Vice President and Chief Financial Officer of the Corporation effective January 1, 2014. Mr. Barrett joined the Corporation as Senior Executive Vice President in November 2013. He held multiple roles with SunTrust Banks, Inc. in the three years prior to joining the Corporation, ending as Chief Financial Officer of SunTrust Wholesale Bank from 2011 to 2013. Mr. Barrett previously held a number of senior finance and managing director roles with JPMorgan Chase & Co. from 2003 to 2010, ending as Managing Director - Investor Relations. He spent 10 years as a Certified Public Accountant with Deloitte Touche Tohmatsu from 1993 to 2003, ending as an Audit Partner, Financial Services in 2003.
Meg R. Mueller	51	Senior Executive Vice President and Chief Credit Officer of the Corporation since July 2013. Executive Vice President and Chief Credit Officer since 2010. Ms. Mueller has been employed by the Corporation in a number of positions since 1996.
Curtis J. Myers	47	Senior Executive Vice President of the Corporation; and President and Chief Operating Officer of Fulton Bank, N.A. since July 2013. President and Chief Operating Officer of Fulton Bank, N.A. and Executive Vice President of the Corporation since August 2011. President and Chief Operating Officer of Fulton Bank, N.A. since February 2009. Mr. Myers has been employed by Fulton Bank, N.A. in a number of positions since 1990.
Craig A. Roda	59	Senior Executive Vice President of Community Banking of the Corporation since July 2011; and Chairman and Chief Executive Officer of Fulton Bank, N.A., since February 2009. Chief Executive Officer and President of Fulton Bank, N.A. from 2006 to 2009. Mr. Roda has been employed by the Corporation in a number of positions since 1979.
Philmer H. Rohrbaugh	63	Senior Executive Vice President and Chief Risk Officer of the Corporation since November 2012. Mr. Rohrbaugh was a managing partner of KPMG, LLP's Chicago office from 2009 to 2012; Vice Chairman Industries and part of the U.S. Management Committee of KPMG from 2006 to 2009; and joined KPMG in 2002. He has more than 25 years of experience in various management positions. Mr. Rohrbaugh is a Certified Public Accountant and currently serves as a director of a public manufacturing company.
Angela M. Sargent	48	Senior Executive Vice President and Chief Information Officer of the Corporation since July 2013. Executive Vice President and Chief Information Officer since 2002. Ms. Sargent has been employed by the Corporation in a number of positions since 1992.



Item 1A. Risk Factors

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

**ECONOMIC AND CREDIT RISKS.**

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

The Corporation's results of operations and financial condition are affected by conditions in the capital markets and the economy generally. The Corporation's financial performance is highly dependent upon the business environment in the markets where the Corporation operates and in the U.S. as a whole. Unfavorable or uncertain economic and market conditions can be caused by declines in economic growth, business activity or investor or business confidence, limitations on the availability, or increases in the cost, of credit and capital, changes in the rate of inflation, changes in interest rates, high unemployment, natural disasters or a combination of these or other factors.

Specifically, the business environment impacts the ability of borrowers to pay interest on, and repay principal of, outstanding loans and the value of collateral securing those loans, as well as demand for loans and other products and services the Corporation offers. If the quality of the Corporation's loan portfolio declines, the Corporation may have to increase its provision for credit losses, which would negatively impact its results of operations, and could result in charge-offs of a higher percentage of its loans. Unlike large, national institutions, the Corporation is not able to spread the risks of unfavorable local economic conditions across a large number of diversified economies and geographic locations. If the communities in which the Corporation operates do not grow, or if prevailing economic conditions locally or nationally are unfavorable, its business could be adversely affected. In addition, increased market competition in a lower demand environment could adversely affect the profit potential of the Corporation.

The Corporation is subject to certain risks in connection with the establishment and level of its allowance for credit losses.

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. While the Corporation believes that its allowance for credit losses as of December 31, 2015 is sufficient to cover incurred losses in the loan portfolio on that date, the Corporation may need to increase its provision for credit losses due to changes in the risk characteristics of the loan portfolio, thereby negatively impacting its results of operations.

The allowance for loan losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. Management's estimate of losses inherent in the loan portfolio is dependent on the proper application of its methodology for determining its allowance needs. The most critical judgments underpinning that methodology include: the ability to identify potential problem loans in a timely manner; proper collateral valuation of impaired loans evaluated for impairment; proper measurement of allowance needs for pools of loans measured for impairment; and an overall assessment of the risk profile of the loan portfolio. The Corporation determines the appropriate level of the allowance for credit losses based on many quantitative and qualitative factors, including, but not limited to: the size and composition of the loan portfolio; changes in risk ratings; changes in collateral values; delinquency levels; historical losses; and economic conditions. In addition, as the Corporation's loan portfolio grows, it will generally be necessary to increase the allowance for credit losses through additional provisions, which will impact the Corporation's operating results.

If the Corporation's assumptions and judgments regarding such matters prove to be inaccurate, its allowance for credit losses might not be sufficient, and additional provisions for credit losses might need to be made. Depending on the amount of such provisions for credit losses, the adverse impact on the Corporation's earnings could be material. Furthermore, banking regulators may require the Corporation to make additional provisions for credit losses or otherwise recognize further loan charge-offs or impairments following their periodic reviews of the Corporation's loan portfolio, underwriting procedures and allowance for credit losses. Any increase in the Corporation's allowance for credit losses or loan charge-offs as required by such regulatory authorities could have a material adverse effect on the

Corporation's financial condition and results of operations. See "Provision and Allowance for Credit Losses," under "Financial Condition" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Economic downturns and the composition of the Corporation's loan portfolio subject the Corporation to credit risk. Economic downturns and the composition of the Corporation's loan portfolio subject the Corporation to credit risk. National, regional and local economic conditions can impact the Corporation's loan portfolio. For example, an increase in unemployment, a decrease in real estate values or changes in interest rates, as well as other factors, such as a substantial decline in the stock market, could weaken the economies of the communities the Corporation serves. Weakness in the market areas served by the Corporation may depress the Corporation's earnings and consequently its financial condition because:

- borrowers may not be able to pay interest on, and repay their principal of, outstanding loans;
- the value of the collateral securing the Corporation's loans to borrowers may decline; and
- demand for loans, as well as and other products and services the Corporation offers, may decline.

Approximately \$10.4 billion, or 74.8%, of the Corporation's loan portfolio was in commercial loans, commercial mortgage loans, and construction loans at December 31, 2015. Commercial loans, commercial mortgage loans and construction loans generally involve a greater degree of credit risk than residential mortgage loans and consumer loans because they typically have larger balances and are more likely to be affected by adverse conditions in the economy. Because payments on these loans often depend on the successful operation and management of businesses and properties, repayment of such loans may be affected by factors outside the borrower's control, such as adverse conditions in the real estate markets, adverse economic conditions or changes in government regulation. Intense competition among lenders, coupled with moderate levels of recent economic growth, can increase pressure on the Corporation to relax its credit standards and/or underwriting criteria in order to achieve the Corporation's loan growth targets. A relaxation of credit standards or underwriting criteria could result in greater challenges in the repayment or collection of loans should economic conditions, or individual borrower performance, deteriorate to a degree that could impact loan performance. Additionally, competitive pressures could drive the Corporation to consider loans and customer relationships that are outside of the Corporation's established risk appetite or target customer base. See "Loans," under "Financial Condition" in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

#### MARKET RISKS.

The Corporation is subject to interest rate risk.

The Corporation cannot predict or control changes in interest rates. The Corporation is affected by fiscal and monetary policies of the federal government, including those of the FRB, which regulates the national money supply and engages in other lending and investment activities in order to manage recessionary and inflationary pressures, many of which affect interest rates charged on loans and paid on deposits.

Net interest income is the difference between interest earned on interest earning assets and interest paid on interest-bearing liabilities. Net interest income is the most significant component of the Corporation's net income, accounting for approximately 74% of total revenues in 2015. The narrowing of interest rate spreads, the difference between interest rates earned on loans and investments and interest rates paid on deposits and borrowings, has adversely affected the Corporation's net interest income.

Low market interest rates have pressured the net interest margin in recent years. Interest-earning assets, such as loans and investments, have been originated, acquired or repriced at lower rates, reducing the average rate earned on those assets. While the average rate paid on interest-bearing liabilities, such as deposits and borrowings, has also declined, the decline has not always occurred at the same pace as the decline in the average rate earned on interest-earning assets, resulting in a narrowing of the net interest margin.

Competition sometimes pressures the Corporation to lower rates charged on loans more than the decline in market rates would otherwise indicate. Competition may also pressure the Corporation to pay higher rates on deposits than market rates would otherwise indicate. Thus, although loan demand has improved in recent years, intense competition among lenders has contributed to downward pressure on loan yields, also narrowing the net interest margin. Further, due to historically low market interest rates, rates paid on deposits have tended to reach a natural floor below which it is difficult to further reduce such rates. See "Net Interest Income," in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Changes in interest rates can affect demand for the Corporation's products and services.

Movements in interest rates can cause demand for some of the Corporation's products and services to be cyclical. As a result, the Corporation may need to periodically increase or decrease the size of certain of its businesses, including its personnel, to more appropriately match increases and decreases in demand and volume. The need to change the scale of these businesses is challenging, and there is often a lag between changes in the businesses and the Corporation's reaction to these changes. For example, demand

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

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

The market value of the Corporation's securities investments, which include municipal securities, auction rate securities, corporate debt securities and equity investments, as well as the revenues the Corporation earns from its trust and investment management services business, are particularly sensitive to price fluctuations and market events.

Declines in the values of the Corporation's securities holdings, combined with adverse changes in the expected cash flows from these investments, could result in other-than-temporary impairment charges.

As of December 31, 2015, the Corporation's securities investments included \$98.1 million of investments in student loan auction rate certificates (ARCs). Following the failures of periodic auctions for these ARCs, which began in 2008 and have continued since that time, there has not been an active market for these securities. Other than sporadic redemptions and tender offers made by the issuers of these ARCs, these securities are illiquid. Secondary market transactions involving ARCs typically represent forced liquidations or distressed sales and do not provide an accurate basis for determining their fair value. The Corporation does not have the intent to sell the ARCs and does not believe it will more likely than not be required to sell any of the ARCs prior to a recovery of their fair value to amortized cost, which may be at maturity. However, if the Corporation chose to liquidate these securities prior to their maturity, it would likely have to do so at "distressed" sale prices and would likely do so at a loss.

A portion of the Corporation's securities portfolio includes holdings of equity investments, including stocks of publicly traded financial institutions. The portfolio of publicly traded financial institutions includes shares of a single financial institution which, as of December 31, 2015, had a fair value of \$10.2 million. The Corporation's holdings of this financial institution constituted approximately 49.5% of the fair value of the Corporation's aggregate holdings of publicly traded financial institutions as of that date.

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

See Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

#### LIQUIDITY RISK.

Changes in interest rates or disruption in liquidity markets may adversely affect the Corporation's sources of funding. The Corporation must maintain sufficient sources of liquidity to meet the demands of its depositors and borrowers, support its operations and meet regulatory expectations. The Corporation's liquidity management emphasizes core deposits and repayments and maturities of loans and investments as its primary sources of liquidity. These primary sources of liquidity can be supplemented by FHLB advances, borrowings from the Federal Reserve Bank, proceeds from the sales of loans and use of liquidity resources of the holding company, including capital markets funding. Lower-cost, core deposits may be adversely affected by changes in interest rates, and secondary sources of liquidity can be more costly to the Corporation than funding provided by deposit account balances having similar maturities. In addition, adverse changes in the Corporation's results of operations or financial condition, downgrades in the Corporation's credit ratings, regulatory actions involving the Corporation, or changes in regulatory, industry or market conditions could lead to increases in the cost of these secondary sources of liquidity, the inability to refinance or replace these secondary funding sources as they mature, or the withdrawal of unused borrowing capacity under these secondary funding sources.

While the Corporation attempts to manage its liquidity through various techniques, the assumptions and estimates used do not always accurately forecast the impact of changes in customer behavior. For example, the Corporation may face limitations on its ability to fund loan growth if customers move funds out of the Corporation's bank subsidiaries' deposit accounts in response to increases in interest rates. In the years following the 2008 financial crisis, even as the general level of market interest rates remained low by historical standards, depositors frequently avoided

higher-yielding and higher-risk alternative investments, in favor of the safety and liquidity of non-maturing deposit accounts. These circumstances contributed to significant growth in non-maturing deposit account balances at the Corporation, and at depository financial institutions generally. Should interest rates rise, customers may become more sensitive to interest rates when making deposit decisions and considering alternative opportunities. This increased



sensitivity to interest rates could cause customers to move funds into higher-yielding deposit accounts offered by the Corporation's bank subsidiaries, require the Corporation's bank subsidiaries to offer higher interest rates on deposit accounts to retain customer deposits or cause customers to move funds into alternative investments or deposits of other banks or non-bank providers. Technology and other factors have also made it more convenient for customers to transfer low-cost deposits into higher-cost deposits or into alternative investments or deposits of other banks or non-bank providers. Movement of customer deposits into higher-yielding deposit accounts offered by the Corporation's bank subsidiaries, the need to offer higher interest rates on deposit accounts to retain customer deposits or the movement of customer deposits into alternative investments or deposits of other banks or non-bank providers could increase the Corporation's funding costs, reduce its net interest margin and/or create liquidity challenges. Market conditions have been negatively impacted by disruptions in the liquidity markets in the past, and such disruptions or an adverse change in the Corporation's results of operations or financial condition could, in the future, have a negative impact on secondary sources of liquidity. If the Corporation is not able to continue to rely primarily on customer deposits to meet its liquidity and funding needs, continue to access secondary, non-deposit funding sources on favorable terms or otherwise fails to manage its liquidity effectively, the Corporation's ability to continue to grow may be constrained and the Corporation's liquidity, operating margins, results of operations and financial condition may be materially adversely affected. See "Interest Rate Risk, Asset/Liability Management and Liquidity," in Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Liquidity planning at both the bank and holding company levels has become an area of increased regulatory emphasis. Due to regulatory limitations on the Corporation's ability to rely on short-term borrowings, any significant movements of deposits away from traditional depository accounts which negatively impacts the Corporation's loan-to-deposit ratio could restrict its ability to achieve growth in loans or require the Corporation to pay higher interest rates on deposit products in order to retain deposits to fund loans.

Liquidity must also be managed at the holding company level. Banking regulators carefully scrutinize liquidity at the holding company level, in addition to consolidated and bank liquidity levels. For safety and soundness reasons, banking regulations limit the amount of cash that can be transferred from bank subsidiaries to the parent company in the form of loans and dividends. Generally, these limitations are based on the bank subsidiaries' regulatory capital levels and their net income. These factors have affected some institutions' ability to pay dividends and have required some institutions to establish borrowing facilities at the holding company level.

#### LEGAL, COMPLIANCE AND REPUTATIONAL RISKS.

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

Virtually every aspect of the Corporation's operations is subject to extensive regulation and, in the current regulatory climate, the Corporation and its bank subsidiaries are subject to heightened regulatory scrutiny, especially given the Corporation's size and complexity.

The Corporation has six bank subsidiaries, and the Corporation and its subsidiaries are subject to regulation by a relatively large number of federal and state regulatory agencies. This corporate structure presents challenges, specifically, the need for compliance with different, and potentially inconsistent, regulatory requirements. The time, expense and internal and external resources associated with regulatory compliance continue to increase, and balancing the need to address regulatory changes and effectively manage overall non-interest expenses has become more challenging than it has been in the past. As a result, the Corporation's compliance obligations increase the Corporation's expense, require increasing amounts of management's attention and can be a disadvantage from a competitive standpoint with respect to non-regulated competitors and larger bank competitors.

The Corporation has announced that it is developing plans to seek regulatory approval to begin the process of consolidating its six bank subsidiaries. This multi-year consolidation process is expected to eventually result in the Corporation conducting its core banking business through a single bank subsidiary, which would reduce the number of government agencies that regulate the Corporation's banking operations. The timing of the commencement of this consolidation process will depend significantly on the Corporation and its bank subsidiaries making necessary progress in enhancing a largely centralized compliance program designed to comply with the requirements of the Bank Secrecy Act, the USA Patriot Act of 2001 and related anti-money laundering regulations (collectively, the

BSA/AML Requirements). The Corporation will also need to establish, to the satisfaction of the Corporation's banking regulatory agencies, that those enhancements are sustainable to achieve compliance with the regulatory enforcement orders issued to the Corporation and its bank subsidiaries by their respective banking regulatory agencies relating to identified deficiencies in that compliance program. There is no assurance that the regulatory approvals required for such consolidation can be obtained or that such consolidation would significantly reduce the time, expense and internal and external resources associated with regulatory compliance.

The Corporation may incur negative consequences from regulatory violations, including inadvertent or unintentional violations.

Compliance with banking statutes and regulations is important to the Corporation's ability to engage in new activities and to consummate certain transactions. Banking regulators are scrutinizing banks through longer and more intensive bank examinations. The results of such examinations could result in a delay or failure to receive required regulatory approvals for potential new activities and transactional matters. Federal and state banking regulators also possess broad powers to take supervisory actions, as they deem appropriate. These supervisory actions may result in higher capital requirements, higher deposit insurance premiums and limitations on the Corporation's operations and expansion activities that could have a material adverse effect on its business and profitability. As noted below and as examples of such limitations, the regulatory enforcement orders to which the Corporation and each of its bank subsidiaries are subject impose certain restrictions on the expansion activities of the Corporation and such bank subsidiaries.

Further, failure to comply with these regulatory requirements, including inadvertent or unintentional violations, may result in the assessment of fines and penalties, or the commencement of further informal or formal regulatory enforcement actions against the Corporation or its bank subsidiaries. Other negative consequences also can result from such failures, including regulatory restrictions on the Corporation's activities, including restrictions on the Corporation's ability to grow through acquisition, reputational damage, restrictions on the ability of institutional investment managers to invest in the Corporation's securities, and increases in the Corporation's costs of doing business. The occurrence of one or more of these events may have a material adverse effect on the Corporation's business, financial condition and/or results of operations.

The Corporation and its bank subsidiaries are subject to regulatory enforcement orders requiring improvement in compliance functions and remedial actions.

In recent years, a combination of financial reform legislation and heightened scrutiny by banking regulators have significantly increased expectations regarding what constitutes an effective risk and compliance management infrastructure. To keep pace with these expectations, the Corporation has invested considerable resources in initiatives designed to strengthen its risk management framework and regulatory compliance programs, including those designed to comply with the BSA/AML Requirements.

Nonetheless, as mentioned above, the Corporation and each of its bank subsidiaries are subject to regulatory enforcement orders issued during 2014 and 2015 by their respective Federal and state bank regulatory agencies relating to identified deficiencies in the Corporation's centralized Bank Secrecy Act and anti-money laundering compliance program (the BSA/AML Compliance Program), which was designed to comply with the BSA/AML Requirements.

The regulatory enforcement orders, which are in the form of consent orders or orders to cease and desist issued upon consent (Consent Orders), generally require, among other things, that the Corporation and its bank subsidiaries undertake a number of required actions to strengthen and enhance the BSA/AML Compliance Program, and, in some cases, conduct retrospective reviews of past account activity and transactions, as well as certain reports filed in accordance with the BSA/AML Requirements, to determine whether suspicious activity and certain transactions in currency were properly identified and reported in accordance with the BSA/AML Requirements.

In addition to requiring strengthening and enhancement of the BSA/AML Compliance Program, while the Consent Orders remain in effect, the Corporation is subject to certain restrictions on expansion activities of the Corporation and its bank subsidiaries. Further, any failure to comply with the requirements of any of the Consent Orders involving the Corporation or its bank subsidiaries could result in further enforcement actions, the imposition of material restrictions on the activities of the Corporation or its bank subsidiaries, or the assessment of fines or penalties. Additional expenses and investments have been incurred as the Corporation expanded its hiring of personnel and use of outside professionals, such as consulting and legal services, and capital investments in operating systems to strengthen and support the BSA/AML Compliance Program, as well as the Corporation's broader compliance and risk management infrastructures. The expense and capital investment associated with all of these efforts, including in connection with the Consent Orders, have had an adverse effect on the Corporation's results of operations in recent

periods and could have a material adverse effect on the Corporation's results of operations in one or more future periods.

Finally, due to the existence of the Consent Orders, some counterparties may not be permitted to, due to their internal policies, or may choose not to do business with the Corporation or its bank subsidiaries. Should counterparties upon which the Corporation or its bank subsidiaries rely for the conduct of their business become unwilling to do business with the Corporation or its bank subsidiaries, the Corporation's results of operations and/or financial condition could be materially adversely effected.

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

The Dodd-Frank Act was enacted in 2010. The scope of the Dodd-Frank Act impacted many aspects of the financial services industry, and the Act required the development and adoption of many regulations, a number of which have not yet been adopted or fully implemented. The delay in the implementation of many of the regulations mandated by the Dodd-Frank Act on the timelines contemplated by such legislation has resulted in a lack of clear regulatory guidance to banks with respect to certain matters. The resulting uncertainty can cause banks to take a cautious approach to certain business initiatives and planning. Additional uncertainty regarding the effect of the Dodd-Frank Act exists due to court decisions and the potential for additional legislative changes to the Dodd-Frank Act.

The Corporation has been impacted, and will likely continue to be in the future, by the so-called Durbin Amendment to the Dodd-Frank Act, which reduced debit card interchange revenue of banks, and revised FDIC deposit insurance assessments. The Corporation has also been impacted by the Dodd-Frank Act in the areas of corporate governance, capital requirements, risk management, stress testing and regulation under consumer protection laws.

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

Pursuant to the Dodd-Frank Act, the CFPB issued a series of final rules in January 2013 related to mortgage loan origination and mortgage loan servicing. These final rules prohibit creditors, such as the Corporation's bank subsidiaries, from extending residential mortgage loans without regard for the consumer's ability to repay, provide certain safe harbor protections for the origination of loans that meet the requirements for a "qualified mortgage" and add restrictions and requirements to residential mortgage origination and servicing practices. In addition, these rules restrict the imposition of prepayment penalties and compensation practices relating to residential mortgage loan origination. These rules may adversely affect the volume of mortgage loans that the Corporation's bank subsidiaries originate and may subject those subsidiaries to increased potential liability related to their residential loan origination activities, as well as increase costs. In December 2013, the CFPB issued final rules revising and integrating previously separate disclosures required under the Truth in Lending Act and the Real Estate Settlement Procedures Act in connection with closed-end consumer mortgages. These final rules, which became effective August 1, 2015, required the Corporation to adapt its systems and procedures to accommodate the use of new disclosure forms to be provided to closed-end consumer mortgage borrowers at the time of application and at the time of closing for those loans within the timeframes required under these new rules. See "Supervision and Regulation," in Item 1. Business.

Additional growth, particularly at the Corporation's largest subsidiary, Fulton Bank, N.A., would subject it to additional regulation and increased supervision.

The Dodd-Frank Act imposes additional regulatory requirements on institutions with \$10 billion or more in assets. The Corporation's largest bank subsidiary, Fulton Bank, N.A., had \$9.8 billion in assets as of December 31, 2015. Additional growth (or the consolidation of the Corporation's bank subsidiaries as discussed above) that results in

Fulton Bank, N.A. having assets of \$10 billion or more would subject Fulton Bank, N.A. to the following:

• Supervision, examination and enforcement jurisdiction by the CFPB with respect to consumer financial protection laws;

• Additional stress testing requirements;

• A modified methodology for calculating FDIC insurance assessments and potentially higher assessment rates as a result of institutions with \$10 billion or more in assets being required to bear a greater portion of the cost of raising the FDIC reserve ratio to 1.35% as required by the Dodd-Frank Act;

• Heightened compliance standards under the Volcker Rule; and

• Enhanced bank regulatory supervision as a larger financial institution.

See "Supervision and Regulation," in Item 1. Business.

Negative publicity could damage the Corporation's reputation and business.

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

From time to time the Corporation and its subsidiaries may be the subject of litigation and governmental or administrative proceedings. Adverse outcomes of any such litigation or proceedings may have a material adverse impact on the Corporation's business and results of operations as well as its reputation.

Many aspects of the Corporation's business involve substantial risk of legal liability. From time to time, the Corporation and its subsidiaries have been named or threatened to be named as defendants in various lawsuits arising from its business activities (and in some cases from the activities of companies that were acquired). In addition, the Corporation and its bank subsidiaries are regularly the subject of governmental investigations and other forms of regulatory inquiry. Like other large financial institutions, we are also subject to risk from potential employee misconduct, including non-compliance with policies and improper use or disclosure of confidential information. These matters could result in adverse judgments, settlements, fines, penalties, injunctions or other relief. Substantial legal liability or significant regulatory actions against us could materially adversely affect our business, financial condition or results of operations and/or cause significant reputational harm to our business. The Corporation establishes reserves for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. However, the Corporation may still incur legal costs for a matter, even if a reserve has not been established. Currently, the Corporation and its bank subsidiaries are the subject of regulatory proceedings in the form of the Consent Orders. The Corporation can provide no assurance as to the outcome or resolution of legal or administrative actions, and such actions may result in judgments against us for significant damages or the imposition of regulatory restrictions on our operations. Resolution of these types of matters can be prolonged and costly, and the ultimate results or judgments are uncertain due to the inherent uncertainty in litigation and other proceedings.

#### STRATEGIC AND EXTERNAL RISKS.

The Corporation is in the process of transforming its business model and this transformation may not be successful. The Corporation historically has followed a "super-community" banking strategy under which the Corporation has operated its bank subsidiaries autonomously to maximize the advantages of the community banking model in serving the needs of its customers. Reliance on this model has posed challenges to the Corporation's efforts to manage risk efficiently and effectively through a centralized risk management and compliance function. As a result, the Corporation is in the process of transitioning to a business model that is primarily focused on alignment of services with the customer segments the Corporation serves and less oriented to geographic boundaries.

The transformation of the Corporation's business model, which will be implemented over a period of years, may have some or all of the following unintended effects:

- The efficiencies sought may not be achieved;

- Some customers may not receive the change in business model in a positive manner, and relationships with these customers may be jeopardized;

- The changes in organizational structure and the evolution of the Corporation's culture that will be required to support the transition to the new business model may lead to dissatisfaction among employees which could make it more difficult for the Corporation to retain key employees;

- The transition to the new business model may create operational and other challenges that are disruptive to the Corporation's business; and

- Expenses will be incurred in the implementation of the new business model, and the implementation process may distract the Corporation from the achievement of other fundamental business objectives.





The Corporation may not be able to achieve its growth plans.

The Corporation's business plan includes the pursuit of profitable growth. Under current economic, competitive and regulatory conditions, profitable growth may be difficult to achieve due to one or more of the following factors:

In the current, prolonged low interest rate environment, the Corporation's net interest margin has been compressed, and it is possible that a net interest margin that is lower than historical levels could continue for some time. As a result, income growth will likely need to come from growth in the volume of earning assets, particularly loans, and an increase in non-interest income. However, customer demand and competition could make such income growth difficult to achieve;

In recent years, reductions in the Corporation's provision for credit losses have had a significant favorable impact on the Corporation's earnings, in comparison to earlier years, during which credit losses and the provision for credit losses were elevated. Significant further reductions in the provision for loan losses are not likely;

Operating expenses, particularly in the compliance and risk management areas, have been elevated, and such expenses are unlikely to be reduced in the near future; and

Growth through acquisition or branching to supplement organic growth is unlikely to occur while the Consent Orders referenced above are in place, due to an inability to obtain the required regulatory approvals.

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

There is significant competition among commercial banks in the market areas served by the Corporation. In addition, the Corporation also competes with other providers of financial services, such as savings and loan associations, credit unions, consumer finance companies, securities firms, insurance companies, commercial finance and leasing companies, the mutual funds industry, full service brokerage firms and discount brokerage firms, some of which are subject to less extensive regulation than the Corporation is with respect to the products and services they provide and have different cost structures. Some of the Corporation's competitors have greater resources, higher lending limits, lower cost of funds and may offer other services not offered by the Corporation. The Corporation also experiences competition from a variety of institutions outside its market areas. Some of these institutions conduct business primarily over the Internet and, as a result, may be able to realize certain cost savings and offer products and services at more favorable rates and with greater convenience to the customer.

Competition may adversely affect the rates the Corporation pays on deposits and charges on loans, thereby potentially adversely affecting the Corporation's profitability. The Corporation's profitability depends upon its continued ability to successfully compete in the market areas it serves. See "Competition," in Item 1. Business.

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

In the past, the Corporation supplemented its internal growth with strategic acquisitions of banks, branches and other financial services companies. If the purchase price of an acquired company exceeds the fair value of the company's net assets, the excess is carried on the acquirer's balance sheet as goodwill. As of December 31, 2015, the Corporation had \$530.6 million of goodwill recorded on its balance sheet. The Corporation is required to evaluate goodwill for impairment at least annually. Write-downs of the amount of any impairment, if necessary, are to be charged to earnings in the period in which the impairment occurs. There can be no assurance that future evaluations of goodwill will not result in impairment charges.

#### OPERATIONAL RISKS.

The Corporation is exposed to many types of operational and other risks and the Corporation's framework for managing risks may not be effective in mitigating risk.

The Corporation is exposed to many types of operational risk, including the risk of human error or fraud by employees and outsiders, unsatisfactory performance by employees and vendors, clerical and record-keeping errors, computer and telecommunications systems malfunctions or failures and reliance on data that may be faulty or incomplete. In an environment characterized by continual, rapid technological change, as discussed below, when the Corporation introduces new products and services, or makes changes to its information technology systems and processes, these operational risks are increased. Any of these operational risks could result in the Corporation's diminished ability to

operate one or more of its businesses, financial loss, potential liability to customers, inability to secure insurance, reputational damage and regulatory intervention, which could materially adversely affect the Corporation.

The Corporation's risk management framework is subject to inherent limitations, and risks may exist, or develop in the future, that the Corporation has not anticipated or identified. If the Corporation's risk management framework proves to be ineffective, the Corporation could suffer unexpected losses and could be materially adversely affected. The Corporation's historical decentralized banking strategy challenges the Corporation's efforts to manage risk efficiently and effectively through a centralized risk management and compliance function.

The Corporation's operational risks include risks associated with third-party vendors and other financial institutions. The Corporation relies upon certain third-party vendors to provide products and services necessary to maintain its day-to-day operations, including, notably, responsibility for the core processing system that services all of the Corporation's bank subsidiaries. Accordingly, the Corporation's operations are exposed to the risk that these vendors might not perform in accordance with applicable contractual arrangements or service level agreements. The failure of an external vendor to perform in accordance with applicable contractual arrangements or service level agreements could be disruptive to the Corporation's operations, which could have a material adverse effect on the Corporation's financial condition and/or results of operations. Further, third-party vendor risk management has become a point of regulatory emphasis recently. A failure of the Corporation to follow applicable regulatory guidance in this area could expose the Corporation to regulatory sanctions.

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

Any of these operational or other risks could result in the Corporation's diminished ability to operate one or more of its businesses, financial loss, potential liability to customers, inability to secure insurance, reputational damage and regulatory intervention, which could materially adversely affect the Corporation.

The Corporation's internal controls may be ineffective.

One critical component of the Corporation's risk management framework is its system of internal controls.

Management regularly reviews and updates the Corporation's internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide reasonable, but not absolute, assurances that the objectives of the controls are met. Any failure or circumvention of the Corporation's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Corporation's business, results of operations, financial condition and reputation. See Item 9A. Controls and Procedures.

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

The Corporation's business is highly dependent on information systems and technology and the ability to collect, process, transmit and store significant amounts of confidential information regarding customers, employees and others on a daily basis. While the Corporation performs some of the functions required to operate its business directly, it also outsources significant business functions, such as processing customer transactions, maintenance of customer-facing websites, including its online banking function, and developing software for new products and services, among others. These relationships require the Corporation to allow third parties to access, store, process and transmit customer information. As a result, the Corporation may be subject to cyber security risks directly, as well as indirectly through the vendors to whom it outsources business functions. The increased use of smartphones, tablets and other mobile devices as well as cloud computing may also heighten these and other operational risks. Cyber threats could result in unauthorized access, loss or destruction of customer data, unavailability, degradation or denial of service, introduction of computer viruses and other adverse events, causing the Corporation to incur additional costs (such as repairing systems or adding new personnel or protection technologies). Cyber threats may also subject the Company to regulatory investigations, litigation or enforcement or require the payment of regulatory fines or penalties, all or any of which could adversely affect the Corporation's business, financial condition or results of operations and damage its reputation.

The Corporation attempts to reduce its exposure to its vendors' cyber incidents by performing initial vendor due diligence that is updated periodically for critical vendors, negotiating service level standards with vendors, negotiating for indemnification from vendors for confidentiality and data breaches, and limiting third-party access to the least privileged level necessary to perform outsourced functions, among other things. The Corporation also uses monitoring and preventive controls to detect and respond

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to cyber threats to its own systems before they become significant. However, there can be no assurance that the measures employed by the Corporation to combat direct or indirect cyber threats will be effective. In addition, because the methods of cyber attacks change frequently or, in some cases, are not recognized until launched, the Corporation may be unable to implement effective preventive control measures or proactively address these methods. The Corporation's or a vendor's failure to promptly identify and counter a cyber attack may result in increased costs and consequences of a successful cyber attack. Although the Corporation maintains insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber risks, such insurance coverage may be inapplicable or otherwise insufficient to cover any or all losses.

Recent account data compromise events at large retailers has resulted in heightened legislative and regulatory focus on privacy, data protection and information security. New or revised laws and regulations may significantly impact the Corporation's current and planned privacy, data protection and information security-related practices, the collection, use, sharing, retention and safeguarding of consumer and employee information, and current or planned business activities. Compliance with current or future privacy, data protection and information security laws to which the Corporation is subject could result in higher compliance and technology costs and could restrict the Corporation's ability to provide certain products and services, which could materially and adversely affect the Corporation's profitability. The Corporation's failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory and governmental investigations and/or actions, litigation, fines, sanctions and damage to the Corporation's reputation and its brand.

The Corporation continually encounters technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Corporation's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Corporation's operations. The costs of new technology, including personnel, can be high, in both absolute and relative terms. Many of the Corporation's financial institution competitors have substantially greater resources to invest in technological improvements. In addition, new payment services developed and offered by non-financial institution competitors pose an increasing threat to the traditional payment services offered by financial institutions. The Corporation may not be able to effectively implement new technology-driven products and services, be successful in marketing these products and services to its customers, or effectively deploy new technologies to improve the efficiency of its operations. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on the Corporation's business, financial condition and results of operations.

There can be no assurance, given the past pace of change and innovation, that the Corporation's technology, either purchased or developed internally, will meet or continue to meet the needs of the Corporation and the needs of its customers.

The Corporation may not be able to attract and retain skilled people.

The Corporation's success depends, in large part, on its ability to attract and retain skilled people. Competition for talented personnel in most activities engaged in by the Corporation can be intense, and the Corporation may not be able to hire sufficiently skilled people or to retain them. The unexpected loss of services of one or more of the Corporation's key personnel could have a material adverse impact on the Corporation's business because of their skills, knowledge of the Corporation's markets, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

As an example, and as noted above, the Corporation is engaged in an effort to enhance its compliance and risk management functions. Because many of the Corporation's peers are engaged in similar efforts, the competition for personnel with skills in these areas can be significant and, to the extent that the Corporation is able to attract qualified personnel, the expense associated with hiring and retaining such personnel may be substantial.

#### RISKS RELATED TO AN INVESTMENT IN THE CORPORATION'S SECURITIES.

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

The Corporation is required by regulatory authorities to maintain adequate levels of capital to support its operations. In 2015, the Corporation issued subordinated debt intended to qualify as Tier 2 capital for regulatory purposes, and the Corporation anticipates that current capital levels will satisfy regulatory requirements for the foreseeable future. The Corporation, however, may at some point choose to raise additional capital to support future growth. The Corporation's ability to raise additional capital will depend, in part, on conditions in the capital markets at that time, which are outside of the Corporation's control. Accordingly, the Corporation

may be unable to raise additional capital, if and when needed, on terms acceptable to the Corporation, or at all. If the Corporation cannot raise additional capital when needed, its ability to expand operations through internal growth and acquisitions could be materially impacted. In the event of a material decrease in the Corporation's stock price, future issuances of equity securities could result in dilution of existing shareholder interests.

Capital planning has taken on more importance due to regulatory requirements and the Basel III capital standards. Consistent with current regulatory guidance, the Corporation conducts an annual stress test using internal financial data and different economic scenarios provided by the FRB, and reports the results of the stress test to the FRB. Beginning in 2015, the Corporation is also be required to publicly disclose a summary of the results of the stress test reported to the FRB completed under the severely adverse scenario. The Corporation's board of directors and its senior management are required to consider the results of the annual stress test in the normal course of business, including as part of its capital planning process and the evaluation of the adequacy of its capital. The results of future stress testing processes may lead the Corporation to retain additional capital or alter the mix of its capital components. In addition, the implementation of certain regulations with regard to regulatory capital could disproportionately affect the Corporation's regulatory capital position relative to that of its competitors, including those who may not be subject to the same regulatory requirements.

In 2013, the federal banking regulatory agencies implemented the U.S. Basel III Capital Rules, including: (i) new minimum Common Equity Tier 1 capital ratio of 4.50% of risk-weighted assets, (ii) increased minimum Tier 1 capital ratio (from 4.00% to 6.00% of risk-weighted assets), (iii) retention of the current minimum Total capital ratio of 8.00% of risk-weighted assets and the minimum Tier 1 leverage capital ratio at 4.00% of average assets and (iv) a new "capital conservation buffer" of 2.50% above the minimum risk-based capital requirements which must be maintained to avoid restrictions on capital distributions and certain discretionary bonus payments. As a result of the implementation of the new capital standards, certain non-qualifying capital instruments, including cumulative preferred stock and TruPS, are excluded as a component of Tier 1 capital for institutions of the Corporation's size and are included in Tier 2 capital instead.

The fully phased-in capital standards under the U.S. Basel III Capital Rules require banks to maintain more capital than the minimum levels required under former regulatory capital standards. The new minimum regulatory capital requirements began to apply to the Corporation on January 1, 2015. The required minimum capital conservation buffer began to be phased in incrementally on January 1, 2016 and will be fully phased in on January 1, 2019. The failure to meet the established capital requirements could result in the federal banking regulators placing limitations or conditions on the activities of the Corporation or its bank subsidiaries or restricting the commencement of new activities, and such failure could subject the Corporation or its bank subsidiaries to a variety of enforcement remedies, including limiting the ability of the Corporation or its bank subsidiaries to pay dividends, issuing a directive to increase capital and terminating FDIC deposit insurance. In addition, the failure to comply with the capital conservation buffer will result in restrictions on capital distributions and discretionary cash bonus payments to executive officers. As of December 31, 2015, the Corporation's current capital levels met the fully-phased in minimum capital requirements, including capital conservation buffers, as set forth in the U.S. Basel III Capital Rules. See "Capital Requirements," under "Supervision and Regulation" in Item 1. Business.

The Corporation is a holding company and relies on dividends and other payments from its subsidiaries for substantially all of its revenue and its ability to make dividend payments, distributions and other payments. The Corporation is a separate and distinct legal entity from its bank and nonbank subsidiaries, and depends on the payment of dividends and other payments and distributions from its subsidiaries, principally its bank subsidiaries, for substantially all of its revenues. As a result, the Corporation's ability to make dividend payments on its common stock depends primarily on certain federal and state regulatory considerations and the receipt of dividends and other distributions from its subsidiaries. There are various regulatory and prudential supervisory restrictions, which may change from time to time, that impact the ability of the Corporation's bank subsidiaries to pay dividends or make other payments to it. There can be no assurance that the Corporation's bank subsidiaries will be able to pay dividends at past levels, or at all, in the future. If the Corporation does not receive sufficient cash dividends or is unable to borrow from its bank subsidiaries, then the Corporation may not have sufficient funds to pay dividends to its shareholders, repurchase its common stock or service its debt obligations. See "Loans and Dividends from Subsidiary Banks," under

"Supervision and Regulation" in Item 1. Business.

In addition, as noted above, liquidity and capital planning at both the bank and holding company levels has become an area of increased regulatory emphasis. In recent years, the Corporation has pursued a strategy of capital management under which it has sought to deploy its capital, through stock repurchases, increased regular dividends and special dividends, in a manner that is beneficial to the Corporation's shareholders. This capital management strategy is subject to regulatory supervision.

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

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

Downgrades in the credit or financial strength ratings assigned to the counterparties with whom the Corporation transacts could create the perception that the Corporation's financial condition will be adversely impacted as a result of potential future defaults by such counterparties. Additionally, the Corporation could be adversely affected by a general, negative perception of financial institutions caused by the downgrade of other financial institutions.

Accordingly, ratings downgrades for other financial institutions could affect the market price of the Corporation's stock and could limit access to or increase its cost of capital.

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

Provisions of banking laws, Pennsylvania corporate law and of the Corporation's Amended and Restated Articles of Incorporation and Bylaws could make it more difficult for a third party to acquire control of the Corporation or have the effect of discouraging a third party from attempting to acquire control of the Corporation. To the extent that these provisions discourage a transaction, holders of the Corporation's common stock may not have an opportunity to dispose of part or all of their stock at a higher price than that prevailing in the market. These provisions may also adversely affect the market price of the Corporation's stock. In addition, some of these provisions make it more difficult to remove, and thereby may serve to entrench, the Corporation's incumbent directors and officers, even if their removal would be regarded by some shareholders as desirable.

Certain provisions of Pennsylvania corporate law applicable to the Corporation and the Corporation's Amended and Restated Articles of Incorporation and Bylaws include provisions which may be considered to be "anti-takeover" in nature because they may have the effect of discouraging or making more difficult the acquisition of control of the Corporation by means of a hostile tender offer, exchange offer, proxy contest or similar transaction. These provisions are intended to protect the Corporation's shareholders by providing a measure of assurance that the Corporation's shareholders will be treated fairly in the event of an unsolicited takeover bid and by preventing a successful takeover bidder from exercising its voting control to the detriment of the other shareholders. Certain provisions in the Corporation's Amended and Restated Articles of Incorporation and Bylaws, taken as a whole, may also discourage a hostile tender offer, exchange offer, proxy solicitation or similar transaction relating to the Corporation's common stock.

The ability of a third party to acquire the Corporation is also limited under applicable banking regulations. The BHCA requires any "bank holding company" (as defined in that Act) to obtain the approval of the FRB prior to acquiring more than 5% of the Corporation's outstanding common stock. Any person other than a bank holding company is required to obtain prior approval of the FRB to acquire 10% or more of the Corporation's outstanding common stock under the Change in Bank Control Act of 1978 and, under certain circumstances, such approvals are required at an even lower ownership percentage. Any holder of 25% or more of the Corporation's outstanding common stock, other than an individual, is subject to regulation as a bank holding company under the BHCA. In addition, the delays associated with obtaining necessary regulatory approvals for acquisitions of interests in bank holding companies also tend to make more difficult certain methods of effecting acquisitions. While these provisions do not prohibit an acquisition, they would likely act as deterrents to an unsolicited takeover attempt.

Item 1B. Unresolved Staff Comments

None.



## Item 2. Properties

The following table summarizes the Corporation's full-service branch properties, by subsidiary bank, as of December 31, 2015. Remote service facilities (mainly stand-alone automated teller machines) are excluded.

Subsidiary Bank	Owned	Leased	Total Branches
Fulton Bank, N.A.	44	68	112
Fulton Bank of New Jersey	36	29	65
The Columbia Bank	8	23	31
Lafayette Ambassador Bank	4	17	21
FNB Bank, N.A.	5	2	7
Swineford National Bank	5	2	7
Total	102	141	243

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

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

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

## Item 3. Legal Proceedings

The Corporation and its subsidiaries are involved in various legal proceedings in the ordinary course of business of the Corporation. The Corporation periodically evaluates the possible impact of pending litigation matters based on, among other factors, the advice of counsel, available insurance coverage and recorded liabilities and reserves for probable legal liabilities and costs. In addition, from time to time, the Corporation is the subject of investigations or other forms of regulatory or governmental inquiry covering a range of possible issues and, in some cases, these may be part of similar reviews of the specified activities of other industry participants. These inquiries could lead to administrative, civil or criminal proceedings, and could possibly result in fines, penalties, restitution or the need to alter the Corporation's business practices, and cause the Corporation to incur additional costs. The Corporation's practice is to cooperate fully with regulatory and governmental investigations.

During the second quarter of 2015, Fulton Bank, N.A. (the Bank), the Corporation's largest bank subsidiary, received a letter from the U.S. Department of Justice (the Department) indicating that the Department had initiated an investigation regarding potential violations of fair lending laws by the Bank in certain of its geographies. The Bank is cooperating with the Department and responding to the Department's requests for information. Although the Corporation is not able to predict the outcome of the Department's investigation, it could result in legal proceedings the resolution of which could potentially involve a settlement, fines or other remedial actions.

The Corporation and each of its bank subsidiaries are subject to regulatory enforcement orders issued during 2014 and 2015 by their respective Federal and state bank regulatory agencies relating to identified deficiencies in the Corporation's centralized Bank Secrecy Act and anti-money laundering compliance program (the BSA/AML

Compliance Program), which was designed to comply with the requirements of the Bank Secrecy Act, the USA Patriot Act of 2001 and related anti-money laundering regulations (collectively, the BSA/AML Requirements). The regulatory enforcement orders, which are in the form of consent orders or orders to cease and desist issued upon consent (Consent Orders), generally require, among other things, that the Corporation and its bank subsidiaries undertake a number of required actions to strengthen and enhance the BSA/AML Compliance Program, and, in some cases, conduct retrospective reviews of past account activity and transactions, as well as certain reports filed in accordance with the BSA/AML Requirements, to determine whether suspicious activity and certain transactions in currency were properly identified and reported in accordance with the BSA/AML Requirements. In addition to requiring strengthening and enhancement of the BSA/AML Compliance Program, while the Consent Orders remain in effect, the Corporation is subject to certain restrictions on

expansion activities of the Corporation and its bank subsidiaries. Further, any failure to comply with the requirements of any of the Consent Orders involving the Corporation or its bank subsidiaries could result in further enforcement actions, the imposition of material restrictions on the activities of the Corporation or its bank subsidiaries, or the assessment of fines or penalties.

As of the date of this report, the Corporation believes that any liabilities, individually or in the aggregate, which may result from the final outcomes of pending legal proceedings will not have a material adverse effect on the financial condition of the Corporation. However, legal proceedings are often unpredictable, and it is possible that the ultimate resolution of any such matters, if unfavorable, may be material to the Corporation's results of operations for any particular period, depending, in part, upon the size of the loss or liability imposed and the operating results for the applicable period.

Item 4. Mine Safety Disclosures

Not applicable.

## PART II

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

## Common Stock

As of December 31, 2015, the Corporation had 174.2 million shares of \$2.50 par value common stock outstanding held by approximately 34,000 holders of record. The closing price per share of the Corporation's common stock on December 31, 2015 was \$13.01. The common stock of the Corporation is traded on the Global Select Market of The NASDAQ Stock Market under the symbol FULT.

The following table presents the quarterly high and low prices of the Corporation's stock and per share cash dividends declared for each of the quarterly periods in 2015 and 2014:

	Price Range		Per Share Dividend
	High	Low	
2015			
First Quarter	\$12.68	\$11.00	\$0.09
Second Quarter	13.52	11.85	0.09
Third Quarter	13.66	11.60	0.09
Fourth Quarter	14.59	11.61	0.11
2014			
First Quarter	\$13.18	\$11.73	\$0.08
Second Quarter	13.16	11.35	0.08
Third Quarter	12.71	11.05	0.08
Fourth Quarter	12.67	10.43	0.10

## Restrictions on the Payments of Dividends

The Corporation is a separate and distinct legal entity from its banking and nonbanking subsidiaries, and depends on the payment of dividends from its subsidiaries, principally its banking subsidiaries, for substantially all of its revenues. As a result, the Corporation's ability to make dividend payments on its common stock depends primarily on certain federal and state regulatory considerations and the receipt of dividends and other distributions from its subsidiaries. There are various regulatory and prudential supervisory restrictions, which may change from time to time, that impact the ability of its banking subsidiaries to pay dividends or make other payments to it. For additional information regarding the regulatory restrictions applicable to the Corporation and its subsidiaries, see "Supervision and Regulation," in Item 1. Business; Item 1A. Risk Factors - "The Corporation is a holding company and relies on dividends and other payments from its subsidiaries for substantially all of its revenue and its ability to make dividend payments, distributions and other payments," under "Risks Related to an Investment in the Corporation's Securities;" and "Note 11 - Regulatory Matters," in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

## Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information about options outstanding under the Corporation's Amended and Restated Equity and Cash Incentive Compensation Plan and the number of securities remaining available for future issuance under the Corporation's Amended and Restated Equity and Cash Incentive Compensation Plan, the 2011 Directors' Equity Participation Plan and the Employee Stock Purchase Plan as of December 31, 2015:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	Weighted-average exercise price of outstanding options, warrants and rights (2)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column) (3)

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Equity compensation plans approved by security holders	3,770,889	\$ 12.31	14,014,131
Equity compensation plans not approved by security holders	—	—	—
Total	3,770,889	\$ 12.31	14,014,131

(1) The number of securities to be issued upon exercise of outstanding options, warrants and rights includes 790,802 performance-based restricted stock units (PSUs), which is the target number of PSUs that are payable under the Amended and Restated Equity and Cash Incentive Compensation Plan (Employee Equity Plan), though no shares will be issued until achievement of applicable performance goals.

(2) The weighted-average exercise price of outstanding options, warrants and rights does not take into account PSUs that may be issued under the Employee Equity Plan upon achievement of applicable performance goals.

(3) Consists of 11,538,863 shares that may be awarded under the Amended and Restated Equity and Cash Incentive Compensation Plan, 395,879 shares that may be awarded under the 2011 Directors' Equity Participation Plan and 2,079,389 of shares that may be purchased under the Employee Stock Purchase Plan. Excludes accrued purchase rights under the Employee Stock Purchase Plan as of December 31, 2015 as the number of shares to be purchased is indeterminable until the time shares are issued.

#### Performance Graph

The following graph shows cumulative total shareholder return (i.e., price change, plus reinvestment of dividends) on the common stock of Fulton Financial Corporation during the five-year period ended December 31, 2015, compared with (1) the NASDAQ Bank Index and (2) the Standard and Poor's 500 index (S&P 500). The graph is not indicative of future price performance.

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

Index	Year Ending December 31					
	2010	2011	2012	2013	2014	2015
Fulton Financial Corporation	\$100.00	\$96.85	\$97.76	\$136.69	\$132.79	\$144.00
S&P 500	\$100.00	\$102.11	\$118.45	\$156.82	\$178.28	\$180.75
NASDAQ Bank Index	\$100.00	\$89.50	\$106.23	\$150.55	\$157.95	\$171.92



## Item 6. Selected Financial Data

## 5-YEAR CONSOLIDATED SUMMARY OF FINANCIAL RESULTS

(dollars in thousands, except per-share data)

	2015	2014	2013	2012	2011	
<b>SUMMARY OF INCOME</b>						
Interest income	\$583,789	\$596,078	\$609,689	\$647,496	\$693,698	
Interest expense	83,795	81,211	82,495	103,168	133,538	
Net interest income	499,994	514,867	527,194	544,328	560,160	
Provision for credit losses	2,250	12,500	40,500	94,000	135,000	
Investment securities gains, net	9,066	2,041	8,004	3,026	4,561	
Non-interest income, excluding investment securities gains	172,773	165,338	179,660	213,386	182,932	
Loss on redemption of trust preferred securities	5,626	—	—	—	—	
Non-interest expense, excluding loss on redemption of trust preferred securities	474,534	459,246	461,433	449,294	416,242	
Income before income taxes	199,423	210,500	212,925	217,446	196,411	
Income taxes	49,921	52,606	51,085	57,601	50,838	
Net income	\$149,502	\$157,894	\$161,840	\$159,845	\$145,573	
<b>PER COMMON SHARE</b>						
Net income (basic)	\$0.85	\$0.85	\$0.84	\$0.80	\$0.73	
Net income (diluted)	0.85	0.84	0.83	0.80	0.73	
Cash dividends	0.38	0.34	0.32	0.30	0.20	
<b>RATIOS</b>						
Return on average assets	0.86	% 0.93	% 0.96	% 0.98	% 0.90	%
Return on average common shareholders' equity	7.38	7.62	7.88	7.79	7.45	
Return on average tangible common shareholders' equity (1)	10.01	10.31	10.76	10.73	10.54	
Net interest margin	3.21	3.39	3.50	3.76	3.90	
Efficiency ratio (1)	68.61	65.65	63.39	57.61	54.27	
Dividend payout ratio	44.71	40.48	38.55	37.50	27.40	
Average equity to assets ratio	11.64	12.22	12.22	12.62	12.12	
<b>PERIOD-END BALANCES</b>						
Total assets	\$17,914,718	\$17,124,767	\$16,934,634	\$16,533,097	\$16,375,174	
Investment securities	2,484,773	2,323,371	2,568,434	2,721,082	2,596,347	
Loans, net of unearned income	13,838,602	13,111,716	12,782,220	12,146,971	11,971,223	
Deposits	14,132,317	13,367,506	12,491,186	12,484,163	12,535,015	
Short-term borrowings	497,663	329,719	1,258,629	868,399	597,033	
FHLB advances and long-term debt	949,542	1,139,413	883,584	894,253	1,040,149	
Shareholders' equity	2,041,894	1,996,665	2,063,187	2,081,656	1,992,539	
<b>AVERAGE BALANCES</b>						
Total assets	\$17,406,843	\$16,959,507	\$16,811,337	\$16,257,776	\$16,114,343	
Investment securities	2,359,689	2,480,454	2,718,174	2,766,552	2,637,130	
Loans, net of unearned income	13,330,973	12,885,180	12,578,524	11,968,567	11,906,447	
Deposits	13,747,113	12,867,663	12,473,184	12,392,580	12,455,065	

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Short-term borrowings	323,772	832,839	1,196,323	690,883	495,791
FHLB advances and long-term debt	1,023,972	965,601	889,461	933,727	1,034,475
Shareholders' equity	2,026,883	2,071,640	2,053,821	2,050,994	1,953,396

Ratio represents a financial measure derived by methods other than Generally Accepted Accounting Principles (1)(GAAP). See reconciliation of this non-GAAP financial measure to the most directly comparable GAAP measure under the following heading, "Supplemental Reporting of Non-GAAP Based Financial Measures" below.

## Supplemental Reporting of Non-GAAP Based Financial Measures

This Annual Report on Form 10-K contains supplemental financial information, as detailed below, which has been derived by methods other than Generally Accepted Accounting Principles ("GAAP"). The Corporation has presented these non-GAAP financial measures because it believes that these measures provide useful and comparative information to assess trends in the Corporation's results of operations. Presentation of these non-GAAP financial measures is consistent with how the Corporation evaluates its performance internally, and these non-GAAP financial measures are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the Corporation's industry. Management believes that these non-GAAP financial measures, in addition to GAAP measures, are also useful to investors to evaluate the Corporation's results. Investors should recognize that the Corporation's presentation of these non-GAAP financial measures might not be comparable to similarly-titled measures of other companies. These non-GAAP financial measures should not be considered a substitute for GAAP basis measures, and the Corporation strongly encourages a review of its consolidated financial statements in their entirety. Following are reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measure as of and for the year ended December 31:

	2015	2014	2013	2012	2011
	(in thousands, except per share data and percentages)				
Return on average common shareholders' equity (tangible)					
Net income	\$149,502	\$157,894	\$161,840	\$159,845	\$145,573
Plus: Intangible amortization, net of tax	161	818	1,584	1,970	2,767
Numerator	\$149,663	\$158,712	\$163,424	\$161,815	\$148,340
Average common shareholders' equity	\$2,026,883	\$2,071,640	\$2,053,821	\$2,050,994	\$1,953,396
Less: Average goodwill and intangible assets	(531,618 )	(532,425 )	(534,431 )	(542,600 )	(545,920 )
Average tangible shareholders' equity (denominator)	\$1,495,265	\$1,539,215	\$1,519,390	\$1,508,394	\$1,407,476
Return on average common shareholders' equity (tangible), annualized	10.01	% 10.31	% 10.76	% 10.73	% 10.54
Efficiency ratio					
Non-interest expense	\$480,160	\$459,246	\$461,433	\$449,294	\$416,242
Less: Intangible amortization	(247 )	(1,259 )	(2,438 )	(3,031 )	(4,257 )
Less: Loss on redemption of trust preferred securities	(5,626 )	—	—	—	—
Numerator	\$474,287	\$457,987	\$458,995	\$446,263	\$411,985
Net interest income (fully taxable equivalent) (1)	\$518,464	\$532,322	\$544,474	\$561,190	\$576,232
Plus: Total Non-interest income	181,839	167,379	187,664	216,412	187,493
Less: Investment securities gains, net	(9,066 )	(2,041 )	(8,004 )	(3,026 )	(4,561 )
Denominator	\$691,237	\$697,660	\$724,134	\$774,576	\$759,164
Efficiency ratio	68.61	% 65.65	% 63.39	% 57.61	% 54.27
Non-performing assets to tangible common shareholders' equity and allowance for credit losses					
Non-performing assets (numerator)	\$155,913	\$150,504	\$169,329	\$237,199	\$317,331

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Tangible common shareholders' equity	\$ 1,510,338	\$ 1,464,862	\$ 1,530,111	\$ 1,546,093	\$ 1,448,330	
Plus: Allowance for credit losses	171,412	185,931	204,917	225,439	258,177	
Tangible common shareholders' equity and allowance for credit losses (denominator)	\$ 1,681,750	\$ 1,650,793	\$ 1,735,028	\$ 1,771,532	\$ 1,706,507	
Non-performing assets to tangible common shareholders' equity and allowance for credit losses	9.27	% 9.12	% 9.76	% 13.39	% 18.60	%

(1) Presented on a fully taxable equivalent basis, using a 35% Federal tax rate and statutory interest expense disallowances.

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

### FORWARD-LOOKING STATEMENTS

The Corporation has made, and may continue to make, certain forward-looking statements with respect to its financial condition and results of operations. Do not unduly rely on forward-looking statements. Forward-looking statements can be identified by the use of words such as "may," "should," "will," "could," "estimates," "predicts," "potential," "continue," "anticipates," "believes," "plans," "expects," "future," "intends" and similar expressions which are intended to identify forward-looking statements. Statements relating to the "outlook" or "outlook for 2016" contained herein are forward-looking statements.

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

- the impact of adverse conditions in the economy and capital markets on the performance of the Corporation's loan portfolio and demand for the Corporation's products and services;
- increases in non-performing assets, which may require the Corporation to increase the allowance for credit losses, charge off loans and incur elevated collection and carrying costs related to such non-performing assets;
- investment securities gains and losses, including other-than-temporary declines in the value of securities which may result in charges to earnings;
- the effects of market interest rates, and the relative balances of rate-sensitive assets to rate-sensitive liabilities, on net interest margin and net interest income;
- the effects of changes in interest rates on demand for the Corporation's products and services;
- the effects of changes in interest rates or disruptions in liquidity markets on the Corporation's sources of funding;
  - the Corporation's ability to manage liquidity, both at the holding company level and at its bank subsidiaries;
- the impact of increased regulatory scrutiny of the banking industry;
- the effects of the increasing amounts of time and expense associated with regulatory compliance and risk management;
- the potential for negative consequences from regulatory violations, including potential supervisory actions and the assessment of fines and penalties;
  - the additional time, expense and investment required to comply with, and the restrictions on potential growth and investment activities resulting from, the existing enforcement orders applicable to the Corporation and its bank subsidiaries by federal and state bank regulatory agencies requiring improvement in compliance functions and other remedial actions, or any future enforcement orders;
- the Corporation's ability to manage the uncertainty associated with the delay in implementing many of the regulations mandated by the Dodd-Frank Act;
- the effects of negative publicity on the Corporation's reputation;
  - the effects of adverse outcomes in litigation and governmental or administrative proceedings;

- the Corporation's ability to successfully transform its business model;
- the Corporation's ability to achieve its growth plans;
- the effects of competition on deposit rates and growth, loan rates and growth and net interest margin;
- the Corporation's ability to manage the level of non-interest expenses, including salaries and employee benefits expenses, operating risk losses and goodwill impairment;
- the impact of operational risks, including the risk of human error, inadequate or failed internal processes and systems, computer and telecommunications systems failures, faulty or incomplete data and an inadequate risk management framework;
- the impact of failures of third parties upon which the Corporation relies to perform in accordance with contractual arrangements;
- the failure or circumvention of the Corporation's system of internal controls;
- the loss of, or failure to safeguard, confidential or proprietary information;

- the Corporation's failure to identify and to address cyber-security risks;
- the Corporation's ability to keep pace with technological changes;
- the Corporation's ability to attract and retain talented personnel;
- capital and liquidity strategies, including the Corporation's ability to comply with applicable capital and liquidity requirements, and the Corporation's ability to generate capital internally or raise capital on favorable terms;
- the Corporation's reliance on its subsidiaries for substantially all of its revenues and its ability to pay dividends or other distributions; and
- the effects of any downgrade in the Corporation's credit ratings on its borrowing costs or access to capital markets.

## OVERVIEW AND OUTLOOK

Fulton Financial Corporation is a financial holding company comprised of six wholly owned banking subsidiaries which provide a full range of retail and commercial financial services in Pennsylvania, Delaware, Maryland, New Jersey and Virginia. The Corporation generates the majority of its revenue through net interest income, or the difference between interest earned on loans and investments and interest paid on deposits and borrowings. Growth in net interest income is dependent upon balance sheet growth and/or maintaining or increasing the net interest margin, which is net interest income (fully taxable-equivalent, or FTE) as a percentage of average interest-earning assets. The Corporation also generates revenue through fees earned on the various services and products offered to its customers and through gains on sales of assets, such as loans, investments, lines of business or properties. Offsetting these revenue sources are provisions for credit losses on loans, non-interest expenses and income taxes.

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

	2015	2014		
Net income (in thousands)	\$ 149,502	\$ 157,894		
Diluted net income per share	\$0.85	\$0.84		
Return on average assets	0.86	% 0.93		%
Return on average equity	7.38	% 7.62		%
Return on average tangible equity (1)	10.01	% 10.31		%
Net interest margin (2)	3.21	% 3.39		%
Efficiency ratio (1)	68.61	% 65.65		%

Ratio represents a financial measure derived by methods other than Generally Accepted Accounting Principles ("GAAP"). See reconciliation of this non-GAAP financial measure to the most directly comparable GAAP measure under the heading, "Supplemental Reporting of Non-GAAP Based Financial Measures," in Item 6. Selected Financial Data.

(1) Presented on an FTE basis, using a 35% Federal tax rate and statutory interest expense disallowances. See also the (2) "Net Interest Income" section of Management's Discussion.

The year ended December 31, 2015 marked another year of continued progress in strengthening the Corporation's banking franchise. Highlights of the year included loan and core deposit growth, consistent asset quality, strong fee income growth, consolidation of 11 branches, funding initiatives and continued strong capital levels. Following is a brief summary of the financial highlights for the year ended December 31, 2015.

Net Income Per Share Growth - Diluted net income per share increased \$0.01, or 1.2%, to \$0.85 per diluted share, compared to \$0.84 in 2014. This increase was due to a 10.4 million, or 5.6%, decrease in weighted average diluted shares outstanding as net income decreased \$8.4 million, or 5.3%, in comparison to 2014. The decrease in net income was driven by a \$14.9 million, or 2.9%, decrease in net interest income and a \$20.9 million, or 4.6%, increase in non-interest expense, partially offset by a \$10.3 million decrease in the provision for credit losses and a \$14.5 million, or 8.6%, increase in non-interest income, mainly in investment securities gains and other service charges and fees.

Net Interest Income and Net Interest Margin - The \$14.9 million decrease in net interest income resulted from the impact of a lower net interest margin, partially offset by the impact of growth in interest-earning assets. For the year ended December 31, 2015, the net interest margin decreased 18 basis points, or 5.3%, in comparison to 2014, driven by an 18 basis point decrease in yields on interest-earning assets and a 2 basis point increase in the cost of interest-bearing liabilities.

Loan Growth - Average loans increased \$445.8 million, or 3.5%, in comparison to 2014, with notable increases in commercial - industrial, financial and agricultural, commercial mortgages and construction loans. The Corporation's loan growth occurred throughout most of its markets.

Asset Quality - Overall asset quality continued to improve in 2015, with decreases in net charge-offs and overall delinquency levels driving a \$10.3 million decrease in the provision for credit losses to \$2.3 million.



**Deposit Growth** - Average deposits increased \$879.5 million, or 6.8%, in comparison to 2014, with the increase coming almost entirely in demand and savings accounts. Average deposit growth outpaced loan growth, which enhanced the Corporation's funding position by reducing the average loan-to-deposit ratio to 97.0% for the year ended December 31, 2015 from 100.1% for the year ended December 31, 2014.

**Non-Interest Income** - Non-interest income increased \$14.5 million, or 8.6%, in comparison to 2014, primarily driven by a \$7.0 million increase in gains on sales of investment securities and a \$4.1 million, or 10.3%, increase in other service charges and fee income.

**Non-Interest Expense** - Non-interest expense increased \$20.9 million, or 4.6%, in comparison to 2014, driven largely by a \$9.8 million, or 3.9%, increase in salaries and employee benefits, a \$5.6 million loss incurred on the redemption of trust preferred securities (TruPS), a \$2.7 million, or 15.9%, increase in data processing and a \$2.0 million, or 15.6%, increase in software. Excluding the loss incurred on the TruPS, non-interest expense increased \$15.3 million, or 3.3%, compared to 2014.

In both 2015 and 2014, the Corporation implemented cost savings initiatives that mitigated the impact of elevated expenses related to the continued build out of its risk, compliance and information technology infrastructures, discussed below. In both periods, these initiatives included branch consolidations, changes in employee benefits and reductions in staffing. Combined, the annualized expense reductions for these actions are projected to be approximately \$14.5 million.

During 2015, these initiatives included the consolidation of 11 branches, modifications to retirement benefits and the elimination of certain positions. These actions resulted in implementation expenses of \$2.0 million in 2015. Total expense reductions realized in 2015 from these 2015 initiatives, excluding implementation expenses, were \$4.7 million. The annualized expense reductions from the 2015 initiatives are estimated at approximately \$6.5 million.

In 2014, these initiatives included the consolidation of 13 branches, streamlining of subsidiary bank management structures and other employee compensation and benefit reductions. These actions resulted in implementation expenses of \$1.0 million and reduced non-interest expenses by \$7.0 million in 2014. Annualized expense reductions from these 2014 initiatives were approximately \$8.0 million.

The following table presents a summary of the 2015 and 2014 cost savings initiatives:

	2015 Actual			2014 Actual			2014 and 2015 Combined Estimated Future Annualized Cost Savings
	Implementation Expenses	Expense Reductions	Net	Implementation Expenses (Gains)	Expense Reductions	Net	
	(in thousands)						
Branch consolidations	\$1,570	\$(1,590)	(20)	\$2,080	\$(2,400)	\$(320)	\$(6,250)
Subsidiary bank management reductions and other employee benefit reductions	—	—	—	(1,100)	(4,550)	(5,650)	(4,700)
Modification of retirement benefits and staffing reductions	450	(3,065)	(2,615)	—	—	—	(3,470)
	\$2,020	\$(4,655)	(2,635)	\$980	\$(6,950)	\$(5,970)	\$(14,420)

Total cost savings  
initiatives

Regulatory Enforcement Orders - The Corporation and each of its bank subsidiaries are subject to regulatory enforcement orders issued during 2014 and 2015 by their respective Federal and state bank regulatory agencies relating to identified deficiencies in the Corporation's centralized Bank Secrecy Act and anti-money laundering compliance program (the BSA/AML Compliance Program), which was designed to comply with the requirements of the Bank Secrecy Act, the USA Patriot Act of 2001 and related anti-money laundering regulations (collectively, the BSA/AML Requirements).

The regulatory enforcement orders, which are in the form of consent orders or orders to cease and desist issued upon consent (Consent Orders), generally require, among other things, that the Corporation and its bank subsidiaries undertake a number of required actions to strengthen and enhance the BSA/AML Compliance Program, and, in some cases, conduct retrospective reviews of past account activity and transactions, as well as certain reports filed in accordance with the

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BSA/AML Requirements, to determine whether suspicious activity and certain transactions in currency were properly identified and reported in accordance with the BSA/AML Requirements.

In addition to requiring strengthening and enhancement of the BSA/AML Compliance Program, while the Consent Orders remain in effect, the Corporation is subject to certain restrictions on expansion activities of the Corporation and its bank subsidiaries. Further, any failure to comply with the requirements of any of the Consent Orders involving the Corporation or its bank subsidiaries could result in further enforcement actions, the imposition of material restrictions on the activities of the Corporation or its bank subsidiaries, or the assessment of fines or penalties.

Additional expenses and investments have been incurred as the Corporation expanded its hiring of personnel and use of outside professionals, such as consulting and legal services, and capital investments in operating systems to strengthen and support the BSA/AML Compliance Program, as well as the Corporation's broader compliance and risk management infrastructures. The expense and capital investment associated with all of these efforts, including in connection with the Consent Orders, have had an adverse effect on the Corporation's results of operations in recent periods and could have a material adverse effect on the Corporation's results of operations in one or more future periods.

#### 2016 Outlook

The Corporation's outlook for 2016:

- annual mid- to high- single digit growth rate in average loans and deposits;
- net interest margin expected to be stable on an annual basis (based on current interest rate environment) with modest quarterly volatility of plus or minus 0 to 3 basis points;
- provision for credit losses driven primarily by loan growth;
- annual mid- to high- single digit growth rate in non-interest income, excluding the impact of securities gains;
- annual low- to mid- single digit growth rate in non-interest expense (excluding loss on redemption of TruPS incurred in 2015); and
- focus on utilizing capital to support growth and provide appropriate returns to shareholders.

#### CRITICAL ACCOUNTING POLICIES

The following is a summary of those accounting policies that the Corporation considers to be most important to the presentation of its financial condition and results of operations, as they require management's most difficult judgments as a result of the need to make estimates about the effects of matters that are inherently uncertain. See additional information regarding these critical accounting policies in "Note 1 - Summary of Significant Accounting Policies," in the Notes to the Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

**Allowance for Credit Losses** - The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management's estimate of incurred losses in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheet.

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

Management's estimate of incurred losses in the loan portfolio is based on a methodology that includes the following critical judgments:

- Identification of potential problem loans in a timely manner. For commercial loans, commercial mortgages and construction loans to commercial borrowers, an internal risk rating process is used. The Corporation believes that

internal risk ratings are the most relevant credit quality indicator for these types of loans. The migration of loans through the various internal risk rating categories is a significant component of the allowance for credit loss methodology for these loans, which bases the probability of default on this migration. Assigning risk ratings involves judgment. The Corporation's loan review officers provide an independent assessment of risk rating accuracy. Ratings may be changed based on the ongoing monitoring procedures performed by loan officers or credit administration staff, or if specific loan review assessments identify a deterioration or an improvement in the loan.

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

Proper collateral valuation of impaired loans evaluated for impairment under FASB ASC Section 310-10-35.

Substantially all of the Corporation's impaired loans to borrowers with total outstanding loan balances greater than or equal to \$1.0 million are measured based on the estimated fair value of each loan's collateral. Collateral could be in the form of real estate, in the case of impaired commercial mortgages and construction loans, or business assets, such as accounts receivable or inventory, in the case of commercial loans. Commercial loans may also be secured by real property.

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

When updated certified appraisals are not obtained for loans evaluated for impairment under FASB ASC Section 310-10-35 that are secured by real estate, fair values are estimated based on the original appraisal values, as long as the original appraisal indicated a strong loan-to-value position and, in the opinion of the Corporation's internal credit administration staff, there has not been a significant deterioration in the collateral value since the original appraisal was performed. Original appraisals are typically used only when the estimated collateral value, as adjusted appropriately for the age of the appraisal, results in a current loan-to-value ratio that is lower than the Corporation's loan-to-value requirements for new loans, generally less than 70%.

Proper measurement of allowance needs for pools of loans measured for impairment under FASB ASC Subtopic 450-20. For loan loss allocation purposes, loans are segmented into pools with similar characteristics. These pools are established by general loan type, or "portfolio segments," as presented in the table under the heading, "Loans, net of unearned income," within Note 4, "Loans and Allowance for Credit Losses," in the Notes to Consolidated Financial Statements. Certain portfolio segments are further disaggregated and evaluated collectively for impairment based on "class segments," which are largely based on the type of collateral underlying each loan. For commercial loans, class segments include loans secured by collateral and unsecured loans. Construction loan class segments include loans secured by commercial real estate, loans to commercial borrowers secured by residential real estate and loans to individuals secured by residential real estate. Consumer loan class segments are based on collateral types and include direct consumer installment loans and indirect automobile loans.

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

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

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

For additional details related to the allowance for credit losses, see "Note 4 - Loans and Allowance for Credit Losses," in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

Goodwill - Goodwill recorded in connection with acquisitions is not amortized to expense, but is tested at least annually for impairment. A quantitative annual impairment test is not required if, based on a qualitative analysis, the Corporation determines that the existence of events and circumstances indicate that it is more likely than not that goodwill is not impaired. The Corporation

completes its annual goodwill impairment test as of October 31st of each year. The Corporation tests for impairment by first allocating its goodwill and other assets and liabilities, as necessary, to defined reporting units. A fair value is then determined for each reporting unit. If the fair values of the reporting units exceed their book values, no write-down of the recorded goodwill is necessary. If the fair values are less than the book values, an additional valuation procedure is necessary to assess the proper carrying value of the goodwill.

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

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

For additional details related to the annual goodwill impairment test, see "Note 6 - Goodwill and Intangible Assets," in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

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

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

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

See "Note 12 - Income Taxes," in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

**Fair Value Measurements** – FASB ASC Topic 820 establishes a fair value hierarchy for the inputs to valuation techniques used to measure assets and liabilities at fair value based on the following three categories (from highest to lowest priority):

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

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

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

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

The determination of fair value for assets categorized as Level 3 items involves a great deal of subjectivity due to the use of unobservable inputs. In addition, determining when a market is no longer active and placing little or no reliance on distressed market prices requires the use of management's judgment. The Corporation's Level 3 assets include available for sale debt securities in the form of pooled trust preferred securities, certain single-issuer trust preferred

securities issued by financial institutions and auction rate securities. The Corporation also categorizes impaired loans, net of allowance allocations, other real estate owned (OREO) and mortgage servicing rights as Level 3 assets measured at fair value on a non-recurring basis.

The Corporation engages third-party valuation experts to assist in valuing interest rate swap derivatives and most available-for-sale investment securities, both measured at fair value on a recurring basis, and mortgage servicing rights, which are measured at

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fair value on a non-recurring basis. The pricing data and market quotes the Corporation obtains from outside sources are reviewed internally for reasonableness.

See "Note 18 - Fair Value Measurements," in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data for the disclosures required by FASB ASC Topic 820.

#### New Accounting Standards

For a description of new accounting standards issued, but not yet adopted by the Corporation, see "New Accounting Standards," in "Note 1 - Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

## RESULTS OF OPERATIONS

## Net Interest Income

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

The following table provides a comparative average balance sheet and net interest income analysis for 2015 compared to 2014 and 2013. Interest income and yields are presented on an FTE basis, using a 35% federal tax rate and statutory interest expense disallowances. The discussion following this table is based on these tax-equivalent amounts.

	2015			2014			2013		
	Average Balance	Interest (1)	Yield/ Rate	Average Balance	Interest (1)	Yield/ Rate	Average Balance	Interest (1)	Yield/ Rate
	(dollars in thousands)								
<b>ASSETS</b>									
Interest-earning assets:									
Loans, net of unearned income (2)	\$13,330,973	\$537,979	4.04%	\$12,885,180	\$542,540	4.21%	\$12,578,524	\$552,427	4.39%
Taxable investment securities (3)	2,093,829	45,279	2.16	2,189,510	50,651	2.31	2,391,650	54,321	2.27
Tax-exempt investment securities (3)	230,633	12,120	5.26	261,825	13,810	5.27	285,174	14,577	5.11
Equity securities (3)	23,348	1,295	5.54	33,957	1,728	5.09	38,722	1,829	4.72
Total investment securities	2,347,810	58,694	2.50	2,485,292	66,189	2.66	2,715,546	70,727	2.60
Loans held for sale	19,937	801	4.02	17,524	786	4.49	36,561	1,551	4.24
Other interest-earning assets	447,354	4,785	1.07	314,345	4,018	1.28	229,444	2,264	0.99
Total interest-earning assets	16,146,074	602,259	3.73	15,702,341	613,533	3.91	15,560,075	626,969	4.03
Noninterest-earning assets:									
Cash and due from banks	105,359			177,664			207,931		
Premises and equipment	226,436			224,903			226,041		
Other assets (3)	1,103,427			1,049,765			1,037,338		
Less: Allowance for loan losses	(174,453)			(195,166)			(220,048)		
Total Assets	\$17,406,843			\$16,959,507			\$16,811,337		
<b>LIABILITIES AND EQUITY</b>									
Interest-bearing liabilities:									
Demand deposits	\$3,255,192	\$4,299	0.13%	\$3,013,879	\$3,793	0.13%	\$2,822,583	\$3,656	0.13%

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Savings deposits	3,677,079	5,435	0.15	3,431,957	4,298	0.13	3,363,943	4,096	0.12
Time deposits	2,988,648	30,748	1.03	2,992,920	27,019	0.90	3,129,162	29,018	0.93
Total									
interest-bearing deposits	9,920,919	40,482	0.41	9,438,756	35,110	0.37	9,315,688	36,770	0.39
Short-term borrowings	323,772	372	0.11	832,839	1,608	0.19	1,196,323	2,420	0.20
Long-term debt	1,023,972	42,941	4.19	965,601	44,493	4.61	889,461	43,305	4.87
Total									
interest-bearing liabilities	11,268,663	83,795	0.74	11,237,196	81,211	0.72	11,401,472	82,495	0.72
Noninterest-bearing liabilities:									
Demand deposits	3,826,194			3,428,907			3,157,496		
Other	285,103			221,764			198,548		
Total Liabilities	15,379,960			14,887,867			14,757,516		
Shareholders' equity	2,026,883			2,071,640			2,053,821		
Total Liabilities and Shareholders' Equity	\$17,406,843			\$16,959,507			\$16,811,337		
Net interest income/net interest margin (FTE)		518,464	3.21%		532,322	3.39%		544,474	3.50%
Tax equivalent adjustment		(18,470 )			(17,455 )			(17,280 )	
Net interest income		\$499,994			\$514,867			\$527,194	

(1)Includes dividends earned on equity securities.

(2)Includes non-performing loans.

(3)Includes amortized historical cost for available for sale securities; the related unrealized holding gains (losses) are included in other assets.

The following table summarizes the changes in FTE interest income and expense resulting from changes in average balances (volumes) and changes in rates:

	2015 vs. 2014 Increase (decrease) due to change in			2014 vs. 2013 Increase (decrease) due to change in		
	Volume	Rate	Net (in thousands)	Volume	Rate	Net
<b>Interest income on:</b>						
Loans and leases	\$18,147	\$(22,708 )	\$(4,561 )	\$13,262	\$(23,149 )	\$(9,887 )
Taxable investment securities	(2,134 )	(3,238 )	(5,372 )	(4,661 )	991	(3,670 )
Tax-exempt investment securities	(646 )	(1,044 )	(1,690 )	(1,221 )	454	(767 )
Equity securities	(577 )	143	(434 )	(235 )	134	(101 )
Loans held for sale	102	(87 )	15	(849 )	84	(765 )
Other interest-earning assets	1,500	(732 )	768	975	779	1,754
<b>Total interest income</b>	<b>\$16,392</b>	<b>\$(27,666 )</b>	<b>\$(11,274 )</b>	<b>\$7,271</b>	<b>\$(20,707 )</b>	<b>\$(13,436 )</b>
<b>Interest expense on:</b>						
Demand deposits	\$359	\$147	\$506	\$243	\$(106 )	\$137
Savings deposits	302	835	1,137	84	118	202
Time deposits	(39 )	3,768	3,729	(1,242 )	(757 )	(1,999 )
Short-term borrowings	(725 )	(511 )	(1,236 )	(706 )	(106 )	(812 )
Long-term debt	2,607	(4,159 )	(1,552 )	3,585	(2,397 )	1,188
<b>Total interest expense</b>	<b>\$2,504</b>	<b>\$80</b>	<b>\$2,584</b>	<b>\$1,964</b>	<b>\$(3,248 )</b>	<b>\$(1,284 )</b>

Changes which are partially attributable to both volume and rate are allocated to the volume and rate

Note: components presented above based on the percentage of the direct changes that are attributable to each component.

#### Comparison of 2015 to 2014

FTE net interest income decreased \$13.9 million, or 2.6%, to \$518.5 million in 2015. Net interest margin decreased 18 basis points, or 5.3%, to 3.21% in 2015 from 3.39% in 2014.

FTE interest income decreased \$11.3 million, or 1.8%, as average yields on interest earning assets decreased 18 basis points. This decrease in yields resulted in a \$27.7 million decrease in FTE interest income, partially offset by a \$16.4 million increase in FTE interest income as a result of a \$443.7 million, or 2.8%, increase in average interest-earning assets.

Average loans and average FTE yields, by type, are summarized in the following table:

	2015		2014		Increase (Decrease) in Balance	
	Balance	Yield	Balance	Yield	\$	%
	(dollars in thousands)					
Real estate - commercial mortgage	\$5,246,054	4.13 %	\$5,117,433	4.38 %	\$128,621	2.5 %
Commercial - industrial, financial and agricultural	3,882,998	3.80	3,659,059	3.94	223,939	6.1
Real estate - home equity	1,700,851	4.10	1,738,449	4.17	(37,598 )	(2.2 )
Real estate - residential mortgage	1,371,321	3.81	1,355,876	3.95	15,445	1.1
Real estate - construction	726,914	3.88	631,968	4.04	94,946	15.0
Consumer	265,688	5.57	277,853	5.11	(12,165 )	(4.4 )
Leasing and other	137,147	6.76	104,542	8.40	32,605	31.2
<b>Total</b>	<b>\$13,330,973</b>	<b>4.04 %</b>	<b>\$12,885,180</b>	<b>4.21 %</b>	<b>\$445,793</b>	<b>3.5 %</b>

Overall loan growth in 2015 resulted from an increase in business activity in the Corporation's markets. This growth was realized mainly in commercial loans and commercial mortgages, which realized a combined increase of \$352.6 million, or 4.0%.

The average yield on loans during 2015 of 4.04% represented a 17 basis point, or 4.0%, decrease in comparison to 2014. The decrease in average yields on loans was attributable to yields on new loans being lower than the overall portfolio yield.

Average investment securities decreased \$137.5 million, or 5.5%, in comparison to 2014 as portfolio cash flows were not fully reinvested. The average yield on investment securities decreased 16 basis points, or 6.0%, to 2.50% in 2015 from 2.66% in 2014. Other interest earning assets increased \$133.0 million, or 42.3%. During the fourth quarter of 2014, the Corporation changed providers for check clearing services to the Federal Reserve Bank of Philadelphia, resulting in the transfer of clearing account balances from noninterest earning assets to low-yielding interest-bearing Federal Reserve Bank accounts, which contributed to the 21 basis points, or 16.4%, decrease in the average yield on other interest-earning assets.

Interest expense increased \$2.6 million, or 3.2%, to \$83.8 million in 2015 from \$81.2 million in 2014, mainly due to a change in funding mix from lower cost short-term Federal funds purchased and short-term FHLB advances to higher cost deposits and long-term FHLB advances. As a result of these funding changes, the total cost of interest-bearing liabilities increased 2 basis points. Total interest-bearing liabilities increased \$31.5 million, or 0.3%. Additional funding to support the increase in interest-earning assets was provided by a \$397.3 million, or 11.6%, increase in noninterest-bearing demand deposits.

Average deposits and interest rates, by type, are summarized in the following table:

	2015		2014		Increase (Decrease) in Balance			
	Balance	Rate	Balance	Rate	\$	%		
	(dollars in thousands)							
Noninterest-bearing demand	\$3,826,194	— %	\$3,428,907	— %	\$397,287	11.6	%	
Interest-bearing demand	3,255,192	0.13	3,013,879	0.13	241,313	8.0		
Savings	3,677,079	0.15	3,431,957	0.13	245,122	7.1		
Total demand and savings	10,758,465	0.09	9,874,743	0.08	883,722	8.9		
Time deposits	2,988,648	1.03	2,992,920	0.90	(4,272)	(0.1)	)	)
Total deposits	\$13,747,113	0.29 %	\$12,867,663	0.27 %	\$879,450	6.8	%	

The \$883.7 million, or 8.9%, increase in average total demand and savings account balances was primarily due to a \$410.6 million, or 11.7%, increase in business account balances, a \$315.5 million, or 6.8%, increase in personal account balances, and a \$157.6 million, or 9.3%, increase in municipal account balances.

The average cost of interest-bearing deposits increased 4 basis points, or 10.8%, to 0.41% in 2015 from 0.37% in 2014, primarily due to an increase in the rate on time deposits, which contributed \$3.8 million to the increase in interest expense.

Average borrowings and interest rates, by type, are summarized in the following table:

	2015		2014		Increase (Decrease) in Balance			
	Balance	Rate	Balance	Rate	\$	%		
	(dollars in thousands)							
Short-term borrowings:								
Customer repurchase agreements	\$161,093	0.10 %	\$197,432	0.10 %	\$(36,339)	(18.4)	)	)%
Customer short-term promissory notes	81,530	0.02	88,670	0.06	(7,140)	(8.1)	)	)
Total short-term customer funding	242,623	0.07	286,102	0.08	(43,479)	(15.2)	)	)
Federal funds purchased	65,779	0.21	285,169	0.20	(219,390)	(76.9)	)	)
Short-term FHLB advances (1)	15,370	0.33	261,568	0.29	(246,198)	(94.1)	)	)
Total short-term borrowings	323,772	0.11	832,839	0.19	(509,067)	(61.1)	)	)

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Long-term debt:							
FHLB Advances	622,978	3.43	583,893	3.79	39,085	6.7	
Other long-term debt	400,994	5.38	381,708	5.86	19,286	5.1	
Total long-term debt	1,023,972	4.19	965,601	4.61	58,371	6.0	
Total	\$1,347,744	3.21	% \$1,798,440	2.56	% \$(450,696)	(25.1	)%

(1) Represents FHLB advances with an original maturity term of less than one year.

Total short-term borrowings decreased \$509.1 million, or 61.1%, due to an improvement in the Corporation's funding position as increases in average deposits and decreases in average investments outpaced the growth in average interest-earning assets. The \$58.4 million increase in long-term debt was primarily due to additional long-term FHLB advances. The average cost of total borrowings increased 65 basis points, or 25.4%, to 3.21% in 2015 from 2.56% in 2014, primarily due to the change in funding mix. While total borrowings decreased \$450.7 million, or 25.1%, the percentage of lower-cost short-term borrowings decreased from 46.3% of the total in 2014 to 24.0% in 2015. This change in the funding mix resulted from the improvement in the Corporation's overall liquidity position and the shift from short-term borrowings to deposits.

In addition, in the third quarter of 2015, the Corporation executed two transactions to restructure its long-term FHLB advances. First, \$200 million of FHLB advances, with a weighted average rate of 4.45% and maturing in the first quarter of 2017, were refinanced with new advances maturing from September 2019 to December 2020, at a weighted average rate of 2.95%. This transaction reduced interest expense on a quarterly basis by approximately \$750,000, beginning in the fourth quarter of 2015. Second, forward agreements were executed to refinance an additional \$200 million of FHLB advances when they mature in December 2016. These forward agreements have maturity dates from March 2021 to December 2021 and will reduce the weighted average rate on these advances from 4.03% to 2.40% and decrease interest expense on a quarterly basis by approximately \$800,000 beginning in the first quarter of 2017.

#### Comparison of 2014 to 2013

FTE net interest income decreased \$12.2 million, or 2.2%, to \$532.3 million in 2014. The net interest margin decreased 11 basis points, or 3.1%, to 3.39% in 2014 from 3.50% in 2013.

FTE interest income decreased \$13.4 million, or 2.1%, as average yields on interest earning assets decreased 12 basis points. This decrease in yields resulted in a \$20.7 million decrease in FTE interest income, partially offset by a \$7.3 million increase in FTE interest income as a result of a \$142.3 million, or 0.9%, increase in average interest-earning assets.

Average investment securities decreased \$230.3 million, or 8.5%, in comparison to 2013 as portfolio cash flows were not fully reinvested. The average yield on investment securities increased 6 basis points, or 2.3%, to 2.66% in 2014 from 2.60% in 2013. A \$5.5 million, or 45.1%, decrease in net premium amortization on mortgage-backed securities and collateralized mortgage obligations had an 18 basis point positive impact on the yield, partially offset by the impact of purchases of mortgage-backed securities and collateralized mortgage obligations at yields that were lower than the overall portfolio yield and a 3 basis point reduction in yields due to the accelerated discount accretion on the redemption of \$51.2 million of student loan auction rate certificates (ARCs) during 2014.

Average loans and average FTE yields, by type, are summarized in the following table:

	2014		2013		Increase (Decrease) in Balance	
	Balance	Yield	Balance	Yield	\$	%
	(dollars in thousands)					
Real estate - commercial mortgage	\$5,117,433	4.38 %	\$4,864,460	4.65 %	\$252,973	5.2 %
Commercial - industrial, financial and agricultural	3,659,059	3.94	3,680,772	4.11	(21,713)	(0.6)
Real estate - home equity	1,738,449	4.17	1,734,622	4.22	3,827	0.2
Real estate - residential mortgage	1,355,876	3.95	1,312,127	4.13	43,749	3.3
Real estate - construction	631,968	4.04	591,540	4.11	40,428	6.8



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Consumer	277,853	5.11	299,127	4.87	(21,274 )	(7.1 )
Leasing and other	104,542	8.40	95,876	8.95	8,666	9.0
Total	\$12,885,180	4.21 %	\$12,578,524	4.39 %	\$306,656	2.4 %

The \$231.3 million, or 2.7%, increase in commercial loans and commercial mortgages was attributable to both new and existing customers. The \$43.7 million, or 3.3%, increase in residential mortgages was due to the Corporation retaining certain 15-year fixed rate residential mortgages in portfolio.

Construction loans increased \$40.4 million, or 6.8%. Beginning in 2009 through 2013, the Corporation reduced its exposure in its

construction portfolio; however, during 2014 it experienced growth in the construction portfolio in the Pennsylvania, Maryland and Delaware markets. Average consumer loans decreased \$21.3 million, or 7.1%, as a result of a \$28.1 million, or 18.2%, decrease in direct consumer loans, partially offset by an increase of \$6.8 million, or 4.6%, in indirect vehicle loans.

The average yield on loans during 2014 of 4.21% represented an 18 basis point, or 4.1%, decrease in comparison to 2013. The decrease in average yields on loans was attributable to repayments of higher-yielding loans, continued refinancing activity at lower rates, the renegotiation of certain existing loans to commercial borrowers to eliminate interest rate floors and new loan production at rates lower than the overall portfolio yield.

Average other interest-earning assets increased \$84.9 million, or 37.0%, primarily due to a transfer of approximately \$170 million in clearing account balances from noninterest-earning assets to low-yielding Federal Reserve Bank accounts in the fourth quarter of 2014, as a result of the Corporation changing its provider of check clearing services. The average yield on other interest-earning assets increased 29 basis points, or 29.3%, due to increases in dividends on Federal Home Loan Bank stock. Each of the Corporation's subsidiary banks is a member of the Federal Home Loan Bank for the region encompassing the headquarters of the subsidiary bank. Memberships are maintained with the Atlanta, New York and Pittsburgh regional Federal Home Loan Banks (collectively referred to as the FHLB). As of December 31, 2014, the Corporation held \$45.7 million of FHLB stock. Dividends have increased in recent years as the FHLB has emerged from the effects of the economic downturn.

Interest expense decreased \$1.3 million, or 1.6%, to \$81.2 million in 2014 from \$82.5 million in 2013. Although the total cost of interest-bearing liabilities was unchanged at 72 basis points, interest expense decreased \$3.2 million due to a change in the overall funding mix. Total average interest-bearing liabilities decreased \$164.3 million, or 1.4%; however, the shift from lower-cost, short-term borrowings to higher-cost, long-term debt and non-maturity deposits created a \$2.0 million increase in interest expense as a result of the Corporation's continuing efforts to lengthen maturities and lock in longer-term rates.

Average deposits and interest rates, by type, are summarized in the following table:

	2014		2013		Increase (Decrease) in Balance			
	Balance	Rate	Balance	Rate	\$	%		
	(dollars in thousands)							
Noninterest-bearing demand	\$3,428,907	— %	\$3,157,496	— %	\$271,411	8.6	%	
Interest-bearing demand	3,013,879	0.13	2,822,583	0.13	191,296	6.8		
Savings	3,431,957	0.13	3,363,943	0.12	68,014	2.0		
Total demand and savings	9,874,743	0.08	9,344,022	0.08	530,721	5.7		
Time deposits	2,992,920	0.90	3,129,162	0.93	(136,242)	(4.4)	)	
Total deposits	\$12,867,663	0.27 %	\$12,473,184	0.29 %	\$394,479	3.2	%	

The \$530.7 million, or 5.7%, increase in average total demand and savings account balances was primarily due to a \$256.7 million, or 8.1%, increase in business account balances, a \$200.2 million, or 4.5%, increase in personal account balances, and a \$93.7 million, or 5.5%, increase in municipal account balances. The \$136.2 million, or 4.4%, decrease in time deposits occurred in accounts with balances less than \$100,000 across most original maturity terms.

The average cost of interest-bearing deposits decreased 2 basis points, or 5.1%, to 0.37% in 2014 from 0.39% in 2013 primarily due to a decrease in higher-cost time deposits and an increase in lower-cost, interest-bearing savings and demand balances.



Average borrowings and interest rates, by type, are summarized in the following table:

	2014		2013		Increase (Decrease) in Balance	
	Balance	Rate	Balance	Rate	\$	%
	(dollars in thousands)					
Short-term borrowings:						
Customer repurchase agreements	\$ 197,432	0.10 %	\$ 186,851	0.11 %	\$ 10,581	5.7 %
Customer short-term promissory notes	88,670	0.06	98,882	0.05	(10,212 )	(10.3 )
Total short-term customer funding	286,102	0.08	285,733	0.09	369	0.1
Federal funds purchased	285,169	0.20	612,803	0.23	(327,634 )	(53.5 )
Short-term FHLB advances (1)	261,568	0.29	297,787	0.24	(36,219 )	(12.2 )
Total short-term borrowings	832,839	0.19	1,196,323	0.20	(363,484 )	(30.4 )
Long-term debt:						
FHLB Advances	583,893	3.79	519,876	4.14	64,017	12.3
Other long-term debt	381,708	5.86	369,585	5.90	12,123	3.3
Total long-term debt	965,601	4.61	889,461	4.87	76,140	8.6
Total	\$ 1,798,440	2.56 %	\$ 2,085,784	2.19 %	\$(287,344 )	(13.8 )%

(1) Represents FHLB advances with an original maturity term of less than one year.

Total short-term borrowings decreased \$363.5 million, or 30.4%, primarily in Federal funds purchased due to an improvement in the Corporation's funding position as increases in average deposits and decreases in average investments outpaced the growth in average loans. The \$76.1 million increase in long-term debt was due to additional long-term FHLB advances as longer-term rates were locked in and durations extended to manage interest rate risk. The average cost of total borrowings increased 37 basis points, or 16.9%, to 2.56% in 2014 from 2.19% in 2013, primarily due to the Corporation's continuing efforts to lengthen maturities and lock in longer-term rates.

#### Provision for Credit Losses

The provision for credit losses was \$2.3 million in 2015, a decrease of \$10.3 million, or 82.0%, in comparison to 2014. The provision for credit losses for 2014 decreased \$28.0 million, or 69.1%, in comparison to 2013.

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



## Non-Interest Income and Expense

## Comparison of 2015 to 2014

## Non-Interest Income

The following table presents the components of non-interest income for 2015 and 2014:

	2015	2014	Increase (Decrease)		
			\$	%	
	(dollars in thousands)				
Service charges on deposit accounts:					
Overdraft fees	\$21,500	\$22,145	\$(645)	(2.9)	)%
Cash management fees	13,342	12,709	633	5.0	
Other	15,255	14,439	816	5.7	
Total service charges on deposit accounts	50,097	49,293	804	1.6	
Investment management and trust services	44,056	44,605	(549)	(1.2)	)
Other service charges and fees:					
Merchant fees	15,037	13,826	1,211	8.8	
Debit card income	10,748	9,948	800	8.0	
Commercial loan swap fees	5,518	3,615	1,903	52.6	
Letter of credit fees	4,809	4,563	246	5.4	
Foreign currency processing income	1,436	1,248	188	15.1	
Other	6,444	6,696	(252)	(3.8)	)
Total other service charges and fees	43,992	39,896	4,096	10.3	
Mortgage banking income:					
Gain on sales of mortgage loans	13,264	10,063	3,201	31.8	
Mortgage servicing income	4,944	7,044	(2,100)	(29.8)	)
Total mortgage banking income	18,208	17,107	1,101	6.4	
Other non-interest income:					
Credit card income	9,638	9,177	461	5.0	
Other income	6,782	5,260	1,522	28.9	
Total other income	16,420	14,437	1,983	13.7	
Total, excluding investment securities gains	172,773	165,338	7,435	4.5	
Investment securities gains	9,066	2,041	7,025	344.2	
Total	\$181,839	\$167,379	\$14,460	8.6	)%

The \$549,000, or 1.2%, decrease in investment management and trust services income was due to a \$449,000, or 2.3%, decrease in brokerage revenue and a \$131,000, or 0.5%, decrease in trust commissions. These decreases resulted from a downturn in market conditions which decreased the values of existing assets under management in trust, wealth management, and brokerage managed accounts.

Total service charges on deposit accounts increased \$804,000, or 1.6%. Improvements were seen in other service charges on deposits (\$816,000, or 5.7%, increase) due to growth in balances, and cash management fees (\$633,000, or 5.0%, increase) due to changes in fee structures. These increases were partially offset by a \$645,000, or 2.9%, decrease in overdraft fees due to lower volumes resulting from changes in customer behavior.

The \$1.2 million, or 8.8%, increase in merchant fee income, the \$800,000, or 8.0%, increase in debit card income and the \$461,000, or 5.0%, increase in credit card income were largely driven by higher transaction volumes. Commercial swap fees increased \$1.9 million, or 52.6%, due to higher commercial loan origination volumes.

Gains on sales of mortgage loans increased \$3.2 million, or 31.8%, due to a \$136.4 million, or 16.1%, increase in new loan commitments and a 13.5% increase in pricing spreads compared to 2014. The increase in new loan commitments

was largely in refinancing volumes, which were \$479.2 million, or 48.7%, of total new loan commitments in 2015 compared to \$277.5 million, or 32.7%, in 2014. Mortgage servicing income decreased \$2.1 million, or 29.8%, due to an increase in amortization of mortgage servicing rights (MSRs), as prepayments increased when compared to 2014.

The \$1.5 million, or 28.9%, increase in other income was due to higher gains on sales of fixed assets, primarily former branch properties, in 2015. These gains were related to the cost savings initiatives discussed in the "Overview and Outlook" section of Management's Discussion.

Investment securities gains of \$9.1 million in 2015 were a result of \$6.5 million of net realized gains on the sales of financial institution stocks and \$2.6 million of net realized gains on the sales of debt securities. Investment securities gains of \$2.0 million for 2014 were the net result of \$1.7 million of net realized gains on the sales of debt securities and \$335,000 of net realized gains on the sales of financial institution stocks.

#### Non-Interest Expense

The following table presents the components of non-interest expense for each of the past two years:

	2015	2014	Increase (Decrease)		
			\$	%	
	(dollars in thousands)				
Salaries and employee benefits	\$260,832	\$251,021	\$9,811	3.9	%
Net occupancy expense	47,777	48,130	(353)	(0.7)	)
Other outside services	27,785	28,404	(619)	(2.2)	)
Data processing	19,894	17,162	2,732	15.9	
Software	14,746	12,758	1,988	15.6	
Equipment expense	14,514	13,567	947	7.0	
FDIC insurance	11,470	10,958	512	4.7	
Professional fees	11,244	12,097	(853)	(7.1)	)
Supplies and postage	10,202	9,795	407	4.2	
Marketing	7,324	8,133	(809)	(9.9)	)
Telecommunications	6,350	6,870	(520)	(7.6)	)
Loss on redemption of trust preferred securities	5,626	—	5,626	N/M	
OREO and repossession expense	3,630	3,270	360	11.0	
Operating risk loss	3,624	4,271	(647)	(15.1)	)
Intangible amortization	247	1,259	(1,012)	(80.4)	)
Other	34,895	31,551	3,344	10.6	
Total	\$480,160	\$459,246	\$20,914	4.6	%

N/M - Not meaningful

Salaries and employee benefits increased \$9.8 million, or 3.9%, with salaries increasing \$8.4 million, or 4.0%, and employee benefits increasing \$1.4 million, or 3.6%. The increase in salaries was primarily due to higher average salaries per full-time equivalent employee, an increase in incentive compensation, and higher temporary employee expenses, partially offset by a decrease in the average number of full-time equivalent employees to 3,460 in 2015, compared to 3,530 in 2014. The increase in employee benefits was primarily due to an increase in defined benefit plan expense in 2015, while 2014 included a \$1.5 million gain realized on a post-retirement plan amendment.

The \$4.7 million, or 15.8%, combined increase in data processing and software resulted from higher transaction volumes, contractual increases in third-party service provider costs, and the implementation of additional systems. Other outside services expenses remained elevated in 2015, decreasing a modest \$619,000, or 2.2%, from 2014. Over time, investments in third-party services to support the build-out of risk management and compliance infrastructure are expected to decrease.

The \$947,000, or 7.0%, increase in equipment expense was primarily due to an increase in depreciation expense on new office furniture and equipment. FDIC insurance expense increased \$512,000, or 4.7%, as a result of balance sheet growth. Professional fees, consisting of legal and audit fees, decreased \$853,000, or 7.1%, due to a combination of lower loan workout legal costs and lower corporate legal fees. Marketing expense decreased \$809,000, or 9.9%, as fewer promotional campaigns were executed in 2015.





The \$360,000, or 11.0%, decrease in other real estate owned and repossession expense was primarily due to lower repossession expense in 2015. This expense category can experience volatility from period to period based on the timing of foreclosures and sales of properties and payments of expenses, such as real estate taxes.

The \$647,000, or 15.1%, decrease in operating risk loss was due to a \$1.3 million decrease in check card fraud losses, partially offset by an \$817,000 increase in losses associated with previously sold residential mortgages. See "Note 17 - Commitments and Contingencies," in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data for additional details related to repurchases of previously sold residential mortgages.

Intangible amortization decreased \$1.0 million, as core deposit intangible assets recognized from previous acquisitions have been largely amortized and net book values are approaching \$0.

In July 2015, the Corporation redeemed \$150.0 million of TruPS. In connection with this redemption, a loss of \$5.6 million, consisting of the remaining unamortized issuance and hedge costs, was recognized as a component of non-interest expense.

### Comparison of 2014 to 2013

#### Non-Interest Income

The following table presents the components of non-interest income:

	2014	2013	Increase (Decrease)		
			\$	%	
	(dollars in thousands)				
Service charges on deposit accounts:					
Overdraft fees	\$22,145	\$28,222	\$(6,077)	(21.5)	)%
Cash management fees	12,709	11,883	826	7.0	
Other	14,439	15,365	(926)	(6.0)	)
Total service charges on deposit accounts	49,293	55,470	(6,177)	(11.1)	)
Investment management and trust services	44,605	41,706	2,899	7.0	
Other service charges and fees:					
Merchant fees	13,826	13,783	43	0.3	
Debit card income	9,948	9,191	757	8.2	
Letter of credit fees	4,563	4,889	(326)	(6.7)	)
Commercial loan swap fees	3,615	1,159	2,456	211.9	
Foreign currency processing income	1,248	1,245	3	0.2	
Other	6,696	6,690	6	0.1	
Total other service charges and fees	39,896	36,957	2,939	8.0	
Mortgage banking income:					
Gain on sales of mortgage loans	10,063	24,609	(14,546)	(59.1)	)
Mortgage servicing income	7,044	6,047	997	16.5	
Total mortgage banking income	17,107	30,656	(13,549)	(44.2)	)
Other non-interest income:					
Credit card income	9,177	8,706	471	5.4	
Other income	5,260	6,165	(905)	(14.7)	)
Total other income	14,437	14,871	(434)	(2.9)	)
Total, excluding investment securities gains	165,338	179,660	(14,322)	(8.0)	)
Investment securities gains	2,041	8,004	(5,963)	(74.5)	)
Total	\$167,379	\$187,664	\$(20,285)	(10.8)	)%

The \$6.1 million, or 21.5%, decrease in overdraft fee income consisted of a \$3.8 million decrease in fees assessed on personal accounts and a \$2.3 million decrease in fees assessed on commercial accounts. The overall decline in these fees resulted from a reduction in the number of overdrafts.



The \$2.9 million, or 7.0%, increase in investment management and trust services income was due to a \$2.0 million, or 11.2%, increase in brokerage revenue and an \$884,000, or 3.7%, increase in trust commissions. These increases resulted from improved market conditions that increased the values of existing assets under management, additional recurring revenue generated through the brokerage business due to growth in new accounts and new trust business sales.

Commercial swap fees increased \$2.5 million, or 211.9%, due to the favorable interest rate environment and the continued expansion of this product. For additional details see "Note 10 - Derivative Financial Instruments," in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

Gains on sales of mortgage loans decreased \$14.5 million, or 59.1%, due to a \$660.8 million, or 43.8%, decrease in new loan commitments and a 27.2% decrease in pricing spreads compared to the prior year. The decline in new loan commitments was largely in refinancing volumes, which decreased \$453.3 million, or 62.0%, and represented approximately 33% of new loan commitments in 2014, compared to approximately 48% during 2013. The decrease in volumes was mainly due to higher mortgage interest rates.

Investment securities gains of \$2.0 million for 2014 were the net result of \$1.7 million of net realized gains on the sales of debt securities, \$335,000 of net realized gains on the sales of financial institution stocks and \$30,000 of other-than-temporary impairment charges for certain financial institution stocks and pooled trust preferred securities. Investment securities gains of \$8.0 million for 2013 included \$4.4 million of net realized gains on sales of financial institution stocks and \$3.8 million of net realized gains on sales of debt securities, partially offset by \$124,000 of other-than-temporary impairment charges for certain financial institution stocks and pooled trust preferred debt securities. See "Note 3 - Investment Securities," in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data for additional details.

#### Non-Interest Expense

The following table presents the components of non-interest expense:

	2014	2013	Increase (Decrease)		
			\$	%	
	(dollars in thousands)				
Salaries and employee benefits	\$251,021	\$253,240	\$(2,219)	(0.9)	)%
Net occupancy expense	48,130	46,944	1,186	2.5	
Other outside services	28,404	18,856	9,548	50.6	
Data processing	17,162	16,555	607	3.7	
Equipment expense	13,567	15,419	(1,852)	(12.0)	)
Software	12,758	11,560	1,198	10.4	
Professional fees	12,097	13,150	(1,053)	(8.0)	)
FDIC insurance	10,958	11,605	(647)	(5.6)	)
Supplies and postage	9,795	10,210	(415)	(4.1)	)
Marketing	8,133	7,705	428	5.6	
Telecommunications	6,870	7,362	(492)	(6.7)	)
Operating risk loss	4,271	9,290	(5,019)	(54.0)	)
OREO and repossession expense	3,270	7,364	(4,094)	(55.6)	)
Intangible amortization	1,259	2,438	(1,179)	(48.4)	)
Other	31,551	29,735	1,816	6.1	
Total	\$459,246	\$461,433	\$(2,187)	(0.5)	)%

Salaries and employee benefits decreased \$2.2 million, or 0.9%. Salaries increased \$2.2 million, or 1.1%, primarily due to normal

merit increases, partially offset by a decrease in staffing levels resulting from cost savings initiatives. Average full-time equivalent employees decreased to 3,530 in 2014 from 3,610 in 2013.

Employee benefits decreased \$4.4 million, or 10.0%, primarily due to the impact of the Corporation's 2014 cost savings initiatives, which included the elimination and reduction of certain employee benefit plans, most notably a decrease in profit sharing contributions and an amendment to the Postretirement Plan, which resulted in net reductions to employee benefits, partially offset by a \$2.0 million increase in healthcare expense due to an increase in claims.

Other outside services increased \$9.5 million, or 50.6%, due to increases in consulting services related to the acceleration of risk management and compliance efforts, including those in connection with the enhancement of the BSA/AML compliance program.

The \$1.9 million, or 12.0%, decrease in equipment expense was primarily due to a decrease in depreciation expense as certain assets became fully depreciated.

Equipment expense decreased \$1.9 million, or 12.0%, primarily due to lower depreciation expense as a result of certain assets being fully depreciated. Software expense increased \$1.2 million, or 10.4%, largely due to a full year of expenses related to the Corporation's new core processing system, which the Corporation converted to during 2013.

The \$5.0 million, or 54.0%, decrease in operating risk loss was primarily due to a \$5.5 million decrease in losses associated with previously sold residential mortgages and \$1.2 million decrease in debit card fraud, partially offset by a \$1.5 million increase in check fraud losses. During the first quarter of 2014, the Corporation entered into a settlement agreement with a secondary market investor. Under this agreement, the Corporation agreed to pay this investor \$4.5 million to settle all outstanding and potential future repurchase requests under a series of specified loan purchase agreements with that secondary market investor. The result of this settlement was a reduction to outstanding repurchase requests of \$7.5 million and a reduction to reserves for repurchases of \$5.1 million. See "Note 17 - Commitments and Contingencies," in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data for additional details related to repurchases of previously sold residential mortgages.

OREO and repossession expense decreased \$4.1 million, or 55.6%, primarily due to an increase in net gains on sales of properties and a decrease in valuation provisions, which reflected the continued improvement in overall asset quality and a \$3.0 million, or 20.1%, decrease in OREO balances. The \$1.2 million, or 48.4%, decrease in intangible amortization was primarily due to core deposit intangible assets, which are amortized on an accelerated basis. The \$1.8 million, or 6.1%, increase in other expenses was due mainly to an increase in the Pennsylvania bank shares tax due to legislative changes.

#### Income Taxes

Income tax expense for 2015 was \$49.9 million, a decrease of \$2.7 million, or 5.1%, from 2014, mainly as a result of the 5.3% decrease in income before income taxes. Income tax expense for 2014 increased \$1.5 million, or 3.0%, from 2013. The Corporation's effective tax rate (income taxes as a percentage of income before income taxes) was 25.0% in 2015 and 2014 and 24.0% in 2013.

The Corporation's effective tax rates are lower than the 35% federal statutory rate due to investments in tax-free municipal securities and federal tax credits earned from investments in qualified affordable housing projects (Tax Credit Investments), partially offset by the impact of state income taxes. Net credits associated with Tax Credit Investments were \$10.4 million in both 2015 and 2014, and \$10.3 million in 2013.

For additional information regarding income taxes, see "Note 12 - Income Taxes," in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

## FINANCIAL CONDITION

The table below presents condensed consolidated ending balance sheets.

	December 31		Increase (decrease)		
	2015	2014	\$	%	
	(dollars in thousands)				
<b>Assets</b>					
Cash and due from banks	\$ 101,120	\$ 105,702	\$(4,582)	(4.3)	)%
Other interest-earning assets	292,516	423,083	(130,567)	(30.9)	)
Loans held for sale	16,886	17,522	(636)	(3.6)	)
Investment securities	2,484,773	2,323,371	161,402	6.9	
Loans, net of allowance	13,669,548	12,927,572	741,976	5.7	
Premises and equipment	225,535	226,027	(492)	(0.2)	)
Goodwill and intangible assets	531,556	531,803	(247)	—	)
Other assets	592,784	569,687	23,097	4.1	
<b>Total Assets</b>	<b>\$ 17,914,718</b>	<b>\$ 17,124,767</b>	<b>\$ 789,951</b>	<b>4.6</b>	<b>%</b>
<b>Liabilities and Shareholders' Equity</b>					
Deposits	\$ 14,132,317	\$ 13,367,506	\$ 764,811	5.7	%
Short-term borrowings	497,663	329,719	167,944	50.9	
Long-term debt	949,542	1,139,413	(189,871)	(16.7)	)
Other liabilities	293,302	291,464	1,838	0.6	
<b>Total Liabilities</b>	<b>15,872,824</b>	<b>15,128,102</b>	<b>744,722</b>	<b>4.9</b>	
<b>Total Shareholders' Equity</b>	<b>2,041,894</b>	<b>1,996,665</b>	<b>45,229</b>	<b>2.3</b>	
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 17,914,718</b>	<b>\$ 17,124,767</b>	<b>\$ 789,951</b>	<b>4.6</b>	<b>%</b>

## Other Interest-Earning Assets

The \$130.6 million, or 30.9%, decrease in other interest-earning assets was primarily due to lower balances on deposit with the Federal Reserve Bank and lower interest bearing deposits with other banks, as funds were used to support increases in investment securities and loans.

## Investment Securities

The following table presents the carrying amount of investment securities, which were all classified as available for sale, as of December 31:

	2015	2014	2013
	(in thousands)		
U.S. Government securities	\$—	\$ 200	\$ 525
U.S. Government sponsored agency securities	25,136	214	726
State and municipal	262,765	245,215	284,849
Corporate debt securities	96,955	98,034	98,749
Collateralized mortgage obligations	821,509	902,313	1,032,398
Mortgage-backed securities	1,158,835	928,831	945,712
Auction rate securities	98,059	100,941	159,274
<b>Total debt securities</b>	<b>2,463,259</b>	<b>2,275,748</b>	<b>2,522,233</b>
Equity securities	21,514	47,623	46,201
<b>Total</b>	<b>\$ 2,484,773</b>	<b>\$ 2,323,371</b>	<b>\$ 2,568,434</b>

Total investment securities increased \$161.4 million, or 6.9%, to \$2.5 billion at December 31, 2015, mainly in mortgage-backed securities, partially offset by a decrease in collateralized mortgage obligations. Portfolio cash flows that were reinvested during 2015 were used to purchase securities with average lives of approximately five years to

provide for relatively structured cash flows, thereby limiting price and extension risk in a rising interest rate environment. Collateralized mortgage obligations decreased

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primarily due to maturities that were not fully reinvested as the Corporation sought to reduce portfolio price risk. The decrease in equity securities reflects the sales of certain financial institutions stocks. As of December 31, 2015, the weighted average remaining lives of collateralized mortgage obligations and mortgage-backed securities were four and five years, respectively.

The net pre-tax unrealized loss on available for sale investment securities was \$9.3 million as of December 31, 2015, compared to an \$11.3 million net pre-tax unrealized gain as of December 31, 2014. The change was due to an increase in market interest rates, which caused the fair values of collateralized mortgage obligations and mortgage-backed securities to decrease below amortized cost.

#### Loans

The following table presents loans outstanding, by type, as of the dates shown, and the change in loans for the most recent year:

	December 31					2015 vs. 2014		
	2015	2014	2013	2012	2011	Increase (Decrease)		
	(dollars in thousands)					\$	%	
Real estate – commercial mortgage	\$5,462,330	\$5,197,155	\$5,101,922	\$4,664,426	\$4,602,596	\$265,175	5.1	%
Commercial – industrial, financial and agricultural	4,088,962	3,725,567	3,628,420	3,612,065	3,639,368	363,395	9.8	
Real estate – home equity	1,684,439	1,736,688	1,764,197	1,632,390	1,624,562	(52,249)	(3.0)	)
Real estate – residential mortgage	1,376,160	1,377,068	1,337,380	1,257,432	1,097,503	(908)	(0.1)	)
Real estate – construction	799,988	690,601	573,672	584,118	615,445	109,387	15.8	
Consumer	268,588	265,431	283,124	309,864	318,874	3,157	1.2	
Leasing and other	173,651	131,583	103,301	93,914	79,869	42,068	32.0	
Gross loans	13,854,118	13,124,093	12,792,016	12,154,209	11,978,217	730,025	5.6	
Unearned income	(15,516)	(12,377)	(9,796)	(7,238)	(6,994)	(3,139)	25.4	
Loans, net of unearned income	\$13,838,602	\$13,111,716	\$12,782,220	\$12,146,971	\$11,971,223	\$726,886	5.5	%

The Corporation does not have a concentration of credit risk with any single borrower, industry or geographical location within its footprint. Approximately \$6.3 billion, or 45.3%, of the loan portfolio was in commercial mortgage and construction loans as of December 31, 2015. As of December 31, 2015, the Corporation's policies limit the maximum total lending commitment to an individual borrower to \$50.0 million. In addition, the Corporation has established lower total lending limits for certain types of lending commitments, and lower total lending limits based on the Corporation's internal risk rating of an individual borrower at the time the lending commitment is approved. As of December 31, 2015, the Corporation had 107 relationships with total borrowing commitments between \$20.0 million and \$50.0 million.

Commercial mortgage loans increased \$265.2 million, or 5.1%, in comparison to December 31, 2014 across all markets. Commercial loans increased \$363.4 million, or 9.8%. Geographically, the increase was primarily in the Pennsylvania (\$298.0 million, or 11.3%), Delaware (\$33.1 million, or 34.6%), Maryland (\$29.5 million, or 9.9%) and New Jersey (\$9.3 million, or 1.7%) markets, partially offset by a \$6.4 million, or 4.4%, decrease in the Virginia market.



The following table summarizes the industry concentrations within the commercial loan portfolio as of December 31:

	2015	2014		
Services	22.6	% 19.2		%
Manufacturing	11.3	13.1		
Health care	10.6	9.0		
Construction (1)	9.7	11.0		
Retail	8.3	9.6		
Wholesale	8.0	8.7		
Real estate (2)	7.3	7.6		
Agriculture	5.1	5.5		
Arts and entertainment	2.8	3.4		
Transportation	2.7	2.4		
Financial services	1.7	1.9		
Other	9.9	8.6		
Total	100.0	% 100.0		%

(1) Includes commercial loans to borrowers engaged in the construction industry.

(2) Includes commercial loans to borrowers engaged in the business of: renting, leasing or managing real estate for others; selling and/or buying real estate for others; and appraising real estate.

Commercial loans and commercial mortgage loans also include shared national credits, which are participations in loans or loan commitments of at least \$20 million that are shared by three or more banks. The Corporation only participates in shared national credits to borrowers located in its geographical markets. Below is a summary of the Corporation's outstanding purchased shared national credits as of December 31:

	2015	2014
	(in thousands)	
Commercial - industrial, financial and agricultural	\$ 152,830	\$ 116,705
Real estate - commercial mortgage	96,219	137,952
Total	\$ 249,049	\$ 254,657

Total shared national credit decreased \$5.6 million, or 2.2%, in comparison to 2014. As of December 31, 2015, one of the shared national credits totaling \$1.1 million, or 0.4%, of the total, was past due.

Home equity loans decreased \$52.2 million, or 3.0%, primarily as a result of customers refinancing outstanding home equity loans into residential mortgages.

Construction loans include loans to commercial borrowers secured by residential real estate, loans to commercial borrowers secured by commercial real estate and other construction loans, which represent loans to individuals secured by residential real estate.

The following table presents outstanding construction loans and delinquency rates, by class segment, as of December 31:

	2015			2014			
	\$	Delinquency Rate	% of Total	\$	Delinquency Rate	% of Total	
	(dollars in thousands)						
Commercial	\$ 559,991	0.2	% 70.0	% \$ 427,419	0.6	% 61.9	%
Commercial - residential	179,303	7.3	22.4	203,670	6.6	29.5	
Other	60,694	1.1	7.6	59,512	0.6	8.6	
Total Real estate - construction	\$ 799,988	1.8	% 100.0	% \$ 690,601	2.4	% 100.0	%

Construction loans increased \$109.4 million, or 15.8%, as a result of growth in commercial construction loans. Geographically, the increase occurred in the Pennsylvania (\$114.6 million, or 31.6%) and New Jersey (\$65.6 million, or 72.2%) markets and were

partially offset by decreases in the Virginia (\$30.9 million, or 34.2%), Maryland (\$24.0 million, or 27.8%) and Delaware (\$15.9 million, or 26.5%) markets.

#### Provision and Allowance for Credit Losses

The Corporation accounts for the credit risk associated with lending activities through the allowance for credit losses and the provision for credit losses.

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

	2015	2014	2013	2012	2011	
	(dollars in thousands)					
Loans, net of unearned income outstanding at end of year	\$ 13,838,602	\$ 13,111,716	\$ 12,782,220	\$ 12,146,971	\$ 11,971,223	
Daily average balance of loans, net of unearned income	\$ 13,330,973	\$ 12,885,180	\$ 12,578,524	\$ 11,968,567	\$ 11,906,447	
Balance of allowance for credit losses at beginning of year	\$ 185,931	\$ 204,917	\$ 225,439	\$ 258,177	\$ 275,498	
Loans charged off:						
Commercial – industrial, financial and agricultural	15,639	24,516	30,383	41,868	52,301	
Real estate - home equity and consumer	5,831	7,811	10,070	13,470	9,686	
Real estate – commercial mortgage	4,218	6,004	20,829	51,988	26,032	
Real estate – residential mortgage	3,612	2,918	9,705	4,509	32,533	
Real estate – construction	201	1,209	6,572	26,250	38,613	
Leasing and other	2,656	2,135	2,653	2,281	2,168	
Total loans charged off	32,157	44,593	80,212	140,366	161,333	
Recoveries of loans previously charged off:						
Commercial – industrial, financial and agricultural	5,264	4,256	9,281	4,282	2,521	
Real estate - home equity and consumer	2,492	2,347	2,378	1,811	1,431	
Real estate – commercial mortgage	2,801	1,960	3,494	3,371	1,967	
Real estate – residential mortgage	1,322	451	548	459	325	
Real estate – construction	2,824	3,177	2,682	2,814	1,746	
Leasing and other	685	916	807	891	1,022	
Total recoveries	15,388	13,107	19,190	13,628	9,012	
Net loans charged off	16,769	31,486	61,022	126,738	152,321	
Provision for credit losses	2,250	12,500	40,500	94,000	135,000	
Balance at end of year	\$ 171,412	\$ 185,931	\$ 204,917	\$ 225,439	\$ 258,177	
Components of Allowance for Credit Losses:						
Allowance for loan losses	\$ 169,054	\$ 184,144	\$ 202,780	\$ 223,903	\$ 256,471	
Reserve for unfunded lending commitments (1)	2,358	1,787	2,137	1,536	1,706	
Allowance for credit losses	\$ 171,412	\$ 185,931	\$ 204,917	\$ 225,439	\$ 258,177	
Selected Asset Quality Ratios:						
Net charge-offs to average loans	0.13	% 0.24	% 0.49	% 1.06	% 1.28	%
	1.22	% 1.40	% 1.59	% 1.84	% 2.14	%

Allowance for loan losses to loans outstanding						
Allowance for credit losses to loans outstanding	1.24	% 1.42	% 1.60	% 1.86	% 2.16	%
Non-performing assets (2) to total assets	0.87	% 0.88	% 1.00	% 1.43	% 1.94	%
Non-performing assets (2) to total loans and OREO	1.13	% 1.15	% 1.32	% 1.95	% 2.64	%
Non-accrual loans to total loans	0.94	% 0.92	% 1.05	% 1.52	% 2.15	%
Allowance for credit losses to non-performing loans	118.37	% 134.26	% 132.82	% 106.82	% 90.11	%
Non-performing assets (2) to tangible common shareholders' equity and allowance for credit losses (3)	9.27	% 9.12	% 9.76	% 13.39	% 18.60	%

(1) Reserve for unfunded lending commitments recorded within other liabilities on the consolidated balance sheets.

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

Ratio represents a financial measure derived by methods other than Generally Accepted Accounting Principles ("GAAP"). See reconciliation of this non-GAAP financial measure to the most directly comparable GAAP measure under the heading, "Supplemental Reporting of Non-GAAP Based Financial Measures," in Item 6. Selected Financial Data.

The provision for credit losses decreased \$10.3 million, or 82.0%, in comparison to 2014 due to improvements in credit quality, as shown by lower net loans charged off and delinquencies.

Net charge-offs decreased \$14.7 million, or 46.7%, to \$16.8 million in 2015 from \$31.5 million in 2014. This decrease was primarily due to a \$9.9 million, or 48.8%, decrease in commercial loan net charge-offs, a \$2.6 million, or 65.0%, decrease in commercial mortgage net charge-offs, and a \$2.1 million, or 38.9%, decrease in consumer and home equity loan net charge-offs. The \$16.8 million of net charge-offs were primarily in the Pennsylvania (\$15.5 million, or 92.7%), and New Jersey (\$2.6 million, or 15.8%) markets, partially offset by recoveries in the Maryland, Virginia and Delaware markets.

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

	2015	2014	2013	2012	2011
	(in thousands)				
Non-accrual loans <sup>(1) (2) (3)</sup>	\$ 129,523	\$ 121,080	\$ 133,753	\$ 184,832	\$ 257,761
Loans 90 days or more past due and still accruing <sup>(2)</sup>	15,291	17,402	20,524	26,221	28,767
Total non-performing loans	144,814	138,482	154,277	211,053	286,528
OREO	11,099	12,022	15,052	26,146	30,803
Total non-performing assets	\$ 155,913	\$ 150,504	\$ 169,329	\$ 237,199	\$ 317,331

In 2015, the total interest income that would have been recorded if non-accrual loans had been current in (1) accordance with their original terms was approximately \$7.0 million. The amount of interest income on non-accrual loans that was recognized in 2015 was approximately \$1.2 million.

Accrual of interest is generally discontinued when a loan becomes 90 days past due. When interest accruals are discontinued, interest previously credited to income is reversed. Non-accrual loans may be restored to accrual (2) status when all delinquent principal and interest has been paid currently for six consecutive months or the loan is considered secured and in the process of collection. Certain loans, primarily adequately collateralized residential mortgage loans, may continue to accrue interest after reaching 90 days past due.

Excluded from non-performing assets as of December 31, 2015 were \$60.6 million of loans modified under trouble debt restructurings (TDRs). These loans were reviewed for impairment under FASB ASC Section 310-10-35, but (3) continue to accrue interest and are, therefore, not included in non-accrual loans. All non-accrual loans as of December 31, 2015 were reviewed for impairment under FASB ASC Section 310-10-35.

The following table presents TDRs as of December 31:

	2015	2014	2013	2012	2011
	(in thousands)				
Real estate – residential mortgage	\$ 28,511	\$ 31,308	\$ 28,815	\$ 32,993	\$ 32,331
Real estate – commercial mortgage	17,563	18,822	19,758	34,672	22,425
Real estate – construction	3,942	9,241	10,117	10,564	7,645
Commercial – industrial, financial and agricultural	5,953	5,237	8,045	5,745	3,581
Real estate - home equity	4,556	2,975	1,365	1,518	183
Consumer	33	38	11	16	10
Total accruing TDRs	60,558	67,621	68,111	85,508	66,175
Non-accrual TDRs (1)	31,035	24,616	30,209	31,245	32,587
Total TDRs	\$ 91,593	\$ 92,237	\$ 98,320	\$ 116,753	\$ 98,762

(1) Included within non-accrual loans in the preceding table.

Total TDRs modified during 2015 and still outstanding as of December 31, 2015 totaled \$14.4 million. Of these loans, \$5.1 million, or 35.5%, had a payment default during 2015, which the Corporation defines as a single missed scheduled payment, subsequent to modification. Total TDRs modified during 2014 and still outstanding as of December 31, 2014 totaled \$16.4 million. Of these loans, \$7.1 million, or 43.1%, had a payment default subsequent to modification during 2014.





The following table presents the changes in non-accrual loans for the years ended December 31:

	Commercial Industrial, Financial and Agricultural (in thousands)	Real Estate Commercial Mortgage	Real Estate Construction	Real Estate - Residential Mortgage	Real Estate - Home Equity	Consumer Leasing		Total
Balance of non-accrual loans at December 31, 2013	\$36,710	\$40,566	\$20,921	\$22,282	\$13,272	\$2	\$—	\$133,753
Additions	38,578	31,509	4,627	10,125	10,406	2,331	803	98,379
Payments	(17,937 )	(18,603 )	(7,185 )	(2,047 )	(3,321 )	(7 )	—	(49,100 )
Charge-offs (1)	(24,517 )	(6,005 )	(1,210 )	(2,918 )	(5,486 )	(2,321 )	(803 )	(43,260 )
Transfers to OREO	(763 )	(2,976 )	(805 )	(4,329 )	(2,199 )	—	—	(11,072 )
Transfers to accrual status	(2,302 )	(54 )	—	(3,070 )	(2,189 )	(5 )	—	(7,620 )
Balance of non-accrual loans at December 31, 2014	29,769	44,437	16,348	20,043	10,483	—	—	121,080
Additions	51,066	24,310	5,150	13,845	8,839	2,229	2,835	108,274
Payments	(20,575 )	(19,786 )	(9,253 )	(3,810 )	(1,945 )	—	(1 )	(55,370 )
Charge-offs (1)	(15,639 )	(4,218 )	(201 )	(3,612 )	(3,604 )	(2,227 )	(1,409 )	(30,910 )
Transfers to OREO	(2,381 )	(1,668 )	—	(4,112 )	(2,039 )	—	—	(10,200 )
Transfers to accrual status	(41 )	(2,344 )	—	(440 )	(524 )	(2 )	—	(3,351 )
Balance of non-accrual loans at December 31, 2015	\$42,199	\$40,731	\$12,044	\$21,914	\$11,210	\$—	\$1,425	\$129,523

(1) Excludes charge-offs of loans on accrual status.

Non-accrual loans increased \$8.4 million, or 7.0%, in 2015 due mainly to an increase in non-accrual loan additions from \$98.4 million in 2014 to \$108.3 million in 2015. The non-accrual loan additions occurred across most loan types, and was not driven by one specific account or event. Non-accrual loan balances continued to be reduced through significant payments, as well as charge-offs.

The following table presents non-performing loans, by type, as of the dates shown and the changes in non-performing loans for the most recent year:

	December 31					2015 vs. 2014 Increase (Decrease)		
	2015	2014	2013	2012	2011	\$	%	
Commercial – industrial, financial and agricultural	\$44,071	\$30,388	\$38,021	\$66,954	\$80,944	\$13,683	45.0	%
Real estate – commercial mortgage	41,170	45,237	44,068	57,120	113,806	(4,067 )	(9.0 )	
Real estate – residential mortgage	28,484	28,995	31,347	34,436	16,336	(511 )	(1.8 )	
Real estate – home equity	14,683	14,740	16,983	17,204	11,207	(57 )	(0.4 )	
Real estate – construction	12,460	16,399	21,267	32,005	60,744	(3,939 )	(24.0 )	
Consumer Leasing	2,440	2,590	2,543	3,315	3,384	(150 )	(5.8 )	
	1,506	133	48	19	107	1,373	N/M	
Total non-performing loans	\$144,814	\$138,482	\$154,277	\$211,053	\$286,528	\$6,332	4.6	%

N/M - Not meaningful

Non-performing commercial loans increased \$13.7 million, or 45.0%, in comparison to December 31, 2014. Geographically, the increase primarily occurred in the Pennsylvania (\$12.3 million, or 78.4%) Virginia (\$3.1 million, or 98.1%) and Maryland (\$1.8 million, or 82.9%) markets, partially offset by a decrease in the New Jersey (\$3.3 million, or 36.0%) market.

Non-performing commercial mortgages decreased \$4.1 million, or 9.0%, in comparison to December 31, 2014. Geographically, the decrease occurred primarily in the Pennsylvania (\$3.0 million, or 16.6%) and Delaware (\$1.9 million, or 78.3%) markets, partially offset by increases in the Maryland and New Jersey markets.

Non-performing construction loans decreased \$3.9 million, or 24.0%, in comparison to December 31, 2014. Geographically, the decrease occurred mainly in the Maryland (\$1.9 million, or 59.9%) and New Jersey (\$1.1 million, or 37.6%) markets.

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The following table summarizes OREO, by property type, as of December 31:

	2015	2014
	(in thousands)	
Residential properties	\$7,303	\$6,656
Commercial properties	2,167	3,453
Undeveloped land	1,629	1,913
Total OREO	\$11,099	\$12,022

As noted under the heading "Critical Accounting Policies" within Management's Discussion, the Corporation's ability to identify potential problem loans in a timely manner is key to maintaining an adequate allowance for credit losses. For commercial loans, commercial mortgages and construction loans to commercial borrowers, an internal risk rating process is used to monitor credit quality. For a complete description of the Corporation's risk ratings, refer to the "Allowance for Credit Losses" section within Note 1, "Summary of Significant Accounting Policies," in the Notes to Consolidated Financial Statements. The evaluation of credit risk for residential mortgages, home equity loans, construction loans to individuals, consumer loans and lease receivables is based on aggregate payment history, through the monitoring of delinquency levels and trends.

Total internally risk rated loans were \$10.3 billion and \$9.6 billion as of December 31, 2015 and 2014, respectively. The following table presents internal risk ratings of special mention or lower for commercial loans, commercial mortgages and construction loans to commercial borrowers, by class segment, as of December 31:

	Special Mention		2015 vs. 2014 Increase (Decrease)		Substandard or Lower		2015 vs. 2014 Increase (Decrease)		Total Criticized Loans	
	2015	2014	\$	%	2015	2014	\$	%	2015	2014
	(dollars in thousands)									
Real estate - commercial mortgage	\$102,625	\$127,302	\$(24,677)	(19.4)%	\$155,442	\$170,837	\$(15,395)	(9.0)%	\$258,067	\$298,120
Commercial - secured	92,711	120,584	(27,873)	(23.1)	136,710	110,544	26,166	23.7	229,421	231,120
Commercial - unsecured	2,761	7,463	(4,702)	(63.0)	3,346	6,810	(3,464)	(50.9)	6,107	14,273
Total commercial - industrial, financial and agricultural	95,472	128,047	(32,575)	(25.4)	140,056	117,354	22,702	19.3	235,528	245,400
Construction - commercial	17,154	27,495	(10,341)	(37.6)	21,812	40,066	(18,254)	(45.6)	38,966	67,561
Construction - residential	3,684	12,202	(8,518)	(69.8)	3,597	5,586	(1,989)	(35.6)	7,281	17,788
Construction - commercial										
Total real estate - construction (excluding construction - other)	20,838	39,697	(18,859)	(47.5)	25,409	45,652	(20,243)	(44.3)	46,247	85,349

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Total	\$218,935	\$295,046	\$(76,111)	(25.8)%	\$320,907	\$333,843	\$(12,936)	(3.9 )%	\$539,842	\$628,8
% of total risk rated loans	2.1	% 3.1	%		3.1	% 3.5	%		5.2	% 6.6

As of December 31, 2015, total loans with risk ratings of special mention and substandard or lower were \$89.0 million, or 14.2%, less than 2014. Overall reductions in criticized loans, while not the sole factor for measuring allocations on these loan types, contributed to a decrease in allocations for impaired loans of \$9.3 million, or 15.2%, in 2015.

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The following table presents a summary of delinquency status and rates, as a percentage of total loans, for loans that do not have internal risk ratings, by class segment, as of December 31:

	Delinquent (1)				Non-performing (2)				Total Past Due			
	2015		2014		2015		2014		2015		2014	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
(dollars in thousands)												
Real estate - home equity	\$8,983	0.53 %	\$10,931	0.63 %	\$14,683	0.87 %	\$14,740	0.85 %	\$23,666	1.40 %	\$25,671	1.48 %
Real estate - residential mortgage	18,305	1.33	26,934	1.96	28,484	2.07	28,995	2.10	46,789	3.40	55,929	4.06
Real estate - construction - other	88	0.14	—	—	609	1.01	332	0.56	697	1.15	332	0.56
Consumer - direct	2,254	2.28	2,891	2.64	2,203	2.23	2,414	2.21	4,457	4.51	5,305	4.85
Consumer - indirect	2,809	1.65	2,574	1.65	237	0.14	176	0.11	3,046	1.79	2,750	1.76
Total Consumer	5,063	1.89	5,465	2.06	2,440	0.90	2,590	0.97	7,503	2.79	8,055	3.03
Leasing and other and Overdrafts	759	0.48	523	0.44	1,506	0.95	133	0.11	2,265	1.43	656	0.55
Total	\$33,198	0.94 %	\$43,853	1.23 %	\$47,722	1.34 %	\$46,790	1.32 %	\$80,920	2.28 %	\$90,643	2.55 %

(1)Includes all accruing loans 30 days to 89 days past due.

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

As of December 31, 2015, delinquency rates for the above class segments decreased, driven by improvements in home equity and residential mortgage delinquencies.

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

	2015		2014		2013		2012		2011	
	Allowance In Each Category	% of Loans	Allowance In Each Category	% of Loans	Allowance In Each Category	% of Loans	Allowance In Each Category	% of Loans	Allowance In Each Category	% of Loans
(dollars in thousands)										
Real estate - commercial mortgage	\$47,866	39.5 %	\$53,493	39.6 %	\$55,659	39.9 %	\$62,928	38.4 %	\$85,112	36.8 %
Commercial - industrial, financial and agricultural	57,098	29.5	51,378	28.4	50,330	28.4	60,205	29.7	74,896	31.0
Real estate - residential mortgage	21,375	9.9	29,072	10.5	33,082	10.5	34,536	10.4	22,986	8.3
	27,458	15.3	33,085	16.2	34,852	16.7	27,895	16.7	17,321	17.2

Consumer,  
home equity,  
leasing &  
other

Real estate - construction	6,529	5.8	9,756	5.3	12,649	4.5	17,287	4.8	30,066	6.7
Unallocated	8,728	N/A	7,360	N/A	16,208	N/A	21,052	N/A	26,090	N/A
	\$169,054	100.0 %	\$184,144	100.0 %	\$202,780	100.0 %	\$223,903	100.0 %	\$256,471	100.0 %

N/A – Not applicable

Management believes that the \$169.1 million allowance for loan losses as of December 31, 2015 is sufficient to cover incurred losses in the loan portfolio. See additional disclosures in "Note 1 - Summary of Significant Accounting Policies," and "Note 4 - Loans and Allowance for Credit Losses," in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data; and "Critical Accounting Policies" above.

## Other Assets

Other assets increased \$23.1 million, or 4.1%, to \$592.8 million as of December 31, 2015. The increase resulted primarily from a \$24.5 million increase in tax credit investments and a \$13.2 million increase in the fair value of commercial loan interest rate swaps. These increases were partially offset by an \$11.1 million decrease in net deferred tax assets.

## Deposits and Borrowings

The following table summarizes the increase in ending deposits, by type:

	2015	2014	Increase (Decrease)		
			\$	%	
	(dollars in thousands)				
Noninterest-bearing demand	\$3,948,114	\$3,640,623	\$307,491	8.4	%
Interest-bearing demand	3,451,207	3,150,612	300,595	9.5	
Savings	3,868,046	3,504,820	363,226	10.4	
Total demand and savings	11,267,367	10,296,055	971,312	9.4	
Time deposits	2,864,950	3,071,451	(206,501)	(6.7)	)
Total deposits	\$14,132,317	\$13,367,506	\$764,811	5.7	%

Noninterest-bearing demand deposits increased \$307.5 million, or 8.4%, primarily due to a \$229.0 million, or 8.3%, increase in business account balances and \$78.9 million, or 10.7%, increase in personal account balances.

Interest-bearing demand accounts increased \$300.6 million, or 9.5%, due to a \$167.0 million, or 9.1%, increase in personal account balances, a \$70.2 million, or 31.4%, increase in business account balances and a \$63.4 million, or 5.8%, increase in municipal balances. The \$363.2 million, or 10.4%, increase in savings account balances was due to a \$309.9 million, or 14.2%, increase in personal account balances and a \$54.5 million, or 7.4%, increase in business account balances.

The \$206.5 million, or 6.7%, decrease in time deposits was a result of customers' migration away from certificates of deposit due to the continued low interest rate environment.

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

	2015	2014	Increase (Decrease)		
			\$	%	
	(dollars in thousands)				
Short-term borrowings:					
Customer repurchase agreements	\$111,496	\$158,394	\$(46,898)	(29.6)	)%
Customer short-term promissory notes	78,932	95,106	(16,174)	(17.0)	)
Total short-term customer funding	190,428	253,500	(63,072)	(24.9)	)
Federal funds purchased	197,235	6,219	191,016	N/M	
Short-term FHLB Advances (1)	110,000	70,000	40,000	57.1	
Total short-term borrowings	497,663	329,719	167,944	50.9	
Long-term debt:					
FHLB Advances	587,756	673,107	(85,351)	(12.7)	)
Other long-term debt	361,786	466,306	(104,520)	(22.4)	)
Total long-term debt	949,542	1,139,413	(189,871)	(16.7)	)
Total borrowings	\$1,447,205	\$1,469,132	\$(21,927)	(1.5)	)%

(1) Represents FHLB advances with an original maturity term of less than one year.

N/M – Not meaningful

The \$167.9 million increase in total short-term borrowings was a primarily a result of the \$191.0 million increase in federal funds purchased. The \$85.4 million, or 12.7%, decrease in long-term FHLB Advances resulted from maturities that were replaced with short-term advances. Other long-term debt decreased by \$104.5 million, or 22.4%, primarily as a result of the maturity of \$100 million of subordinated debt in April 2015. In June 2015, the Corporation issued \$150 million of ten-year subordinated debt at an effective rate of 4.69%. The proceeds were used in July 2015

to redeem \$150 million of TruPS, that carried an effective rate of 6.52%.

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### Shareholders' Equity

Total shareholders' equity increased \$45.2 million, or 2.3%, to \$2.0 billion, or 11.4% of total assets, as of December 31, 2015. The increase was due primarily to \$149.5 million of net income and \$10.8 million of common stock issued, partially offset by \$50.0 million of common stock repurchases and \$66.7 million of dividends on common shares outstanding.

In November 2014, the Corporation entered into an accelerated share repurchase agreement (ASR) with a third party to repurchase \$100 million of shares of its common stock. Under the terms of the ASR, the Corporation paid \$100.0 million to the third party in November 2014 and received an initial delivery of 6.5 million shares, representing 80% of the shares expected to be delivered under the ASR, based on the closing price for the Corporation's shares on November 13, 2014. In April 2015, the third party delivered an additional 1.8 million shares of common stock pursuant to the terms of the ASR, thereby completing the \$100.0 million ASR. The Corporation repurchased a total of 8.3 million shares of common stock under the ASR at an average price of \$12.05 per share.

In April 2015, the Corporation announced that its board of directors had approved a share repurchase program pursuant to which the Corporation was authorized to repurchase up to \$50.0 million of its outstanding shares of common stock, or approximately 2.3% of its outstanding shares, through December 31, 2015. During 2015, approximately 4.0 million shares were repurchased under this program for a total cost of \$50.0 million, or \$12.57 per share, completing this program in August 2015.

In October 2015, the Corporation announced that its board of directors had approved a share repurchase program pursuant to which the Corporation is authorized to repurchase up to \$50.0 million of its outstanding shares of common stock, or approximately 2.3% of its outstanding shares, through December 31, 2016. No shares were repurchased under this program as of December 31, 2015. Subsequent to December 31, 2015, a total of 550,000 shares were repurchased through January 31, 2016 at a total cost of \$6.8 million.

The Corporation and its subsidiary banks are subject to regulatory capital requirements administered by various banking regulators. Failure to meet minimum capital requirements can trigger 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, Tier I and Common Equity 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, 2015, the Corporation and each of its bank subsidiaries met the minimum capital requirements. In addition, all of the Corporation's bank subsidiaries' capital ratios exceeded the amounts required to be considered "well capitalized" as defined in the regulations. See "Note 11 - Regulatory Matters," in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

The following table summarizes the Corporation's capital ratios in comparison to regulatory requirements at December 31:

	2015	2014	Regulatory Minimum for Capital Adequacy	Fully Phased-in, with Capital Conservation Buffers
Total capital (to risk-weighted assets)	13.2%	14.7%	8.0%	10.5%
Tier I capital (to risk-weighted assets)	10.2%	12.3%	6.0%	8.5%
Common equity tier I (to risk-weighted assets)	10.2%	N/A	4.5%	7.0%
Tier I capital (to average assets)	9.0%	10.0%	4.0%	4.0%
N/A – Not applicable				

In July 2013, the FRB approved final rules (the U.S. Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations and implementing the Basel Committee on Banking Supervision's

December 2010 framework for strengthening international capital standards. The U.S. Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions.

The new minimum regulatory capital requirements established by the U.S. Basel III Capital Rules became effective for the Corporation on January 1, 2015, and will be fully phased in on January 1, 2019.

The U.S. Basel III Capital Rules require the Corporation and its bank subsidiaries to:

- Meet a new minimum Common Equity Tier 1 capital ratio of 4.50% of risk-weighted assets and a Tier 1 capital ratio of 6.00% of risk-weighted assets;

Continue to require the current minimum Total capital ratio of 8.00% of risk-weighted assets and the minimum Tier 1 leverage capital ratio of 4.00% of average assets; and

Comply with a revised definition of capital to improve the ability of regulatory capital instruments to absorb losses as a result of which certain non-qualifying capital instruments, including cumulative preferred stock and TruPS, will be excluded as a component of Tier 1 capital for institutions of the Corporation's size.

When fully phased in on January 1, 2019, the Corporation and its bank subsidiaries will also be required to maintain a "capital conservation buffer" of 2.50% above the minimum risk-based capital requirements, which must be maintained to avoid restrictions on capital distributions and certain discretionary bonus payments

The U.S. Basel III Capital Rules use a standardized approach for risk weightings that expand the risk-weightings for assets and off balance sheet exposures from the current 0%, 20%, 50% and 100% categories to a much larger and more risk-sensitive number of categories, depending on the nature of the assets and off-balance sheet exposures, resulting in higher risk weights for a variety of asset categories.

As of December 31, 2015, the Corporation and each of its bank subsidiaries met the minimum requirements of the U.S. Basel III Capital Rules, and each of the Corporation's bank subsidiaries' capital ratios exceeded the amounts required to be considered "well capitalized" as defined in the regulations. As of December 31, 2015, the Corporation's capital levels also met the fully-phased in minimum capital requirements, including the capital conservation buffers, as prescribed in the U.S. Basel III Capital Rules.

#### 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 consolidated balance sheet as well as contractual obligations for purchased services or for operating leases.

The following table summarizes the Corporation's significant contractual obligations to third parties, by type, that were fixed and determinable as of December 31, 2015:

	Payments Due In				Total
	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	
	(in thousands)				
Deposits with no stated maturity (1)	\$11,267,367	\$—	\$—	\$—	\$11,267,367
Time deposits (2)	1,342,715	747,651	691,039	83,544	2,864,949
Short-term borrowings (3)	497,663	—	—	—	497,663
Long-term debt (3)	235,937	301,299	142,370	269,936	949,542
Operating leases (4)	16,325	28,533	20,831	46,819	112,508
Purchase obligations (5)	15,262	17,066	325	—	32,653
Uncertain tax positions (6)	2,373	—	—	—	2,373

(1) Includes demand deposits and savings accounts, which can be withdrawn by customers at any time.

(2) See additional information regarding time deposits in "Note 8 - Deposits," in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

(3) See additional information regarding borrowings in "Note 9 - Short-Term Borrowings and Long-Term Debt," in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

(4) See additional information regarding operating leases in "Note 16 - Leases," in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

(5) Includes information technology, telecommunication and data processing outsourcing contracts.

(6) Includes accrued interest. See additional information related to uncertain tax positions in "Note 12 - Income Taxes," in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary

Data.

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 and commercial letters of credit, which involve, to varying degrees, elements of credit and interest rate risk that are not recognized on the consolidated balance sheet. 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. Commercial letters of credit are conditional commitments issued to facilitate foreign or domestic trade transactions for customers. Commitments and standby and commercial 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, 2015 (in thousands):

Commercial and other	\$3,518,960
Home equity	1,300,062
Commercial mortgage and construction	965,116
Total commitments to extend credit	\$5,784,138
Standby letters of credit	\$374,729
Commercial letters of credit	39,529
Total letters of credit	\$414,258

Item 7A. Quantitative and Qualitative Disclosures About 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, debt security market price risk, foreign currency price risk and commodity price risk. Due to the nature of its operations, foreign currency price risk and commodity price risk are not significant to the Corporation.

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) is responsible for reviewing the interest rate sensitivity and liquidity positions of the Corporation, approving asset and liability management policies, and overseeing the formulation and implementation of strategies regarding balance sheet positions. For the year ended December 31, 2015, the Corporation changed its presentation of interest rate risk to be reflective of the two complementary methods it uses to measure and manage interest rate risk, as it provides a more concise framework for understanding how the Corporation measures and manages its interest rate and market risk.

The Corporation uses two complementary methods to measure and manage interest rate risk. They are simulation of net interest income and estimates of economic value of equity. Using these measurements in tandem provides a reasonably comprehensive summary of the magnitude of the Corporation's interest rate risk, level of risk as time evolves, and exposure to changes in interest rates.

Simulation of net interest income is performed for the next 12-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 net interest income 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, in a non-parallel instantaneous shock, to 10% of the base case net interest income for a 100 basis point shock in interest rates, 15% for a 200 basis point shock and 20% for a 300 basis point shock. A "shock" is an immediate upward or downward movement of interest rates. The shocks do not take into account changes in customer behavior that could result in changes to mix and/or volumes in the balance sheet, nor do they take into account the potential effects of competition on the pricing of deposits and loans over the forward 12-month period.

Contractual maturities and repricing opportunities of loans are incorporated in the simulation model as are prepayment assumptions, maturity data and call options within the investment portfolio. Assumptions based on past experience are incorporated into the model for non-maturity deposit accounts. The assumptions used are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, amount and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

The following table summarizes the expected impact of abrupt interest rate changes on net interest income (due to the current level of interest rates, the 200 and 300 basis point downward shock scenarios are not shown):

Rate Shock (1)	Annual change in net interest income	% Change in net interest income
+300 bp	+ \$73.2 million	+ 14.2%

+200 bp	+ \$48.8 million	+ 9.4%
+100 bp	+ \$22.2 million	+ 4.3%
-100 bp	- \$15.7 million	- 3.0%

(1) These results include the effect of implicit and explicit interest rate floors that limit further reduction in interest rates.

Economic value of equity estimates the discounted present value of asset and liability cash flows. Discount rates are based upon market prices for like assets and liabilities. Abrupt changes or "shocks" in interest rates, both upward and downward, 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. The Corporation's policy limits the economic value of equity that may be at risk, in a non-parallel instantaneous shock, to 10% of the base case

economic value of equity for a 100 basis point shock in interest rates, 20% for a 200 basis point shock and 30% for a 300 basis point shock. As of December 31, 2015, the Corporation was within economic value of equity policy limits for every 100 basis point shock.

#### Interest Rate Swaps

The Corporation enters into interest rate swaps with certain qualifying commercial loan customers to meet their interest rate risk management needs. The Corporation simultaneously enters into interest rate swaps with dealer counterparties, with identical notional amounts and terms. The net result of these interest rate swaps is that the customer pays a fixed rate of interest and the Corporation receives a floating rate. These interest rate swaps are derivative financial instruments that are recorded at their fair value in other assets and liabilities on the consolidated balance sheets. Changes in fair value during the period are recorded in other non-interest expense on the consolidated statements of income.

#### Liquidity

The Corporation must maintain a sufficient level of liquid assets to meet the cash needs of its customers, who, as depositors, may want to withdraw funds or who, as borrowers, need credit availability. Liquidity is provided on a continuous basis through scheduled and unscheduled principal and interest payments on investments and outstanding loans and through the availability of deposits and borrowings. The Corporation also maintains secondary sources that provide liquidity on a secured and unsecured basis to meet short-term and long-term needs.

The Corporation maintains liquidity sources in the form of demand and savings deposits, time deposits, repurchase agreements and short-term promissory notes. The Corporation can access additional liquidity from these sources, if necessary, by increasing the rates of interest paid on those accounts and borrowings. The positive impact to liquidity resulting from paying higher interest rates could have a detrimental impact on the net interest margin and net income if rates on interest-earning assets do not experience a proportionate increase. Borrowing availability with the FHLB and the Federal Reserve Bank, along with Federal funds lines at various correspondent banks, provides the Corporation with additional liquidity.

Each of the Corporation's subsidiary banks is a member of the FHLB and has access to FHLB overnight and term credit facilities. As of December 31, 2015, the Corporation had \$697.8 million of short- and long-term advances outstanding from the FHLB with an additional borrowing capacity of approximately \$2.6 billion under these facilities. Advances from the FHLB are secured by qualifying commercial real estate and residential mortgage loans, investments and other assets.

As of December 31, 2015, the Corporation had aggregate availability under Federal funds lines of \$1.0 billion with \$197.2 million borrowed against that amount. A combination of commercial real estate loans, commercial loans and securities are pledged to the Federal Reserve Bank of Philadelphia to provide access to Federal Reserve Bank Discount Window borrowings. As of December 31, 2015, the Corporation had \$1.2 billion of collateralized borrowing availability at the Discount Window, and no outstanding 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. Management continues to monitor the liquidity and capital needs of the parent company and will implement appropriate strategies, as necessary, to remain adequately capitalized and to meet its cash needs.



The Corporation's sources and uses of funds were discussed in general terms in the net interest income section of Management's Discussion and Analysis. The consolidated statements of cash flows provide additional information. The Corporation's operating activities during 2015 generated \$177.0 million of cash, mainly due to net income. Cash used in investing activities was \$818.0 million, due to net increases in loans and investment securities partially offset by a decrease in short-term investments. Net cash provided by financing activities was \$636.5 million due to increases in deposits, short-term borrowings and additions to long-term debt, partially offset by repayments of long-term debt, common stock, cash dividends and purchases of treasury stock.

The following table presents the expected maturities of available for sale investment securities, at estimated fair value, as of December 31, 2015 and the weighted average yields of such securities (calculated based on historical 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	\$—	— %	\$25,004	1.83 %	\$55	2.91 %	\$77	3.16 %
State and municipal (1)	65,925	4.02	28,796	5.97	115,782	5.21	52,262	5.58
ARCs (2)	—	—	—	—	—	—	98,059	1.84
Corporate debt securities	10,020	3.00	34,077	4.30	11,266	4.23	41,592	2.54
Total	\$75,945	3.89 %	\$87,877	4.12 %	\$127,103	5.12 %	\$191,990	2.92 %
Collateralized mortgage obligations (3)	\$821,509	1.86 %						
Mortgage-backed securities (3)	\$1,158,835	2.34 %						

(1) Weighted average yields on tax-exempt securities have been computed on a fully taxable-equivalent basis assuming a federal tax rate of 35% and statutory interest expense disallowances.

(2) Maturities of ARCs are based on contractual maturities.

(3) Maturities for mortgage-backed securities and collateralized mortgage obligations are dependent upon the interest rate environment and prepayments on the underlying loans. For the purpose of this table, all balances and weighted average rates are shown in one period. As of December 31, 2015, the weighted average remaining lives of collateralized mortgage obligations and mortgage-backed securities were four and five years, respectively.

The Corporation's investment portfolio consists mainly of mortgage-backed securities and collateralized mortgage obligations 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 following table presents the approximate contractual maturity of fixed rate loans and loan types subject to changes in interest rates as of December 31, 2015:

	One Year or Less	One Through Five Years	More Than Five Years	Total
	(in thousands)			
Commercial, financial and agricultural:				
Adjustable and floating rate	\$1,041,125	\$1,831,443	\$430,556	\$3,303,124
Fixed rate	233,720	319,520	232,598	785,838
Total	\$1,274,845	\$2,150,963	\$663,154	\$4,088,962
Real estate – mortgage (1):				
Adjustable and floating rate	\$1,219,602	\$3,260,916	\$2,146,990	\$6,627,508
Fixed rate	451,306	1,012,855	431,260	1,895,421
Total	\$1,670,908	\$4,273,771	\$2,578,250	\$8,522,929
Real estate – construction:				
Adjustable and floating rate	\$183,699	\$281,647	\$235,787	\$701,133
Fixed rate	64,766	14,800	19,289	98,855
Total	\$248,465	\$296,447	\$255,076	\$799,988

(1) Includes commercial mortgages, residential mortgages and home equity loan.

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Contractual maturities of time deposits as of December 31, 2015 were as follows (in thousands):

Year	
2016	\$1,342,716
2017	508,171
2018	239,480
2019	527,480
2020	163,559
Thereafter	83,544
	\$2,864,950

Contractual maturities of time deposits of \$100,000 or more outstanding, included in the table above, as of December 31, 2015 were as follows (in thousands):

Three months or less	\$162,192
Over three through six months	141,961
Over six through twelve months	231,417
Over twelve months	649,845
Total	\$1,185,415

#### 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. As of December 31, 2015, the Corporation's equity investments consisted of \$20.6 million of common stocks of publicly traded financial institutions and \$914,000 of other equity investments.

The equity investments most susceptible to market price risk are the financial institutions stocks, which had a cost basis of \$13.9 million and a fair value of \$20.6 million as of December 31, 2015, including an investment in a single financial institution with a cost basis of \$7.4 million and a fair value of \$10.2 million. The fair value of this investment accounted for 49.5% of the fair value of the common stocks of publicly traded financial institutions. No other investment within the financial institutions stock portfolio exceeded 10% of the portfolio's fair value. In total, net unrealized gains in this portfolio were approximately \$6.8 million as of December 31, 2015.

Management continuously monitors the fair value of its equity investments and evaluates current market conditions and operating results of the issuers. Periodic sale and purchase decisions are made based on this monitoring process. None of the Corporation's equity securities are classified as trading.

In addition to its equity portfolio, investment management and trust services income may be impacted by fluctuations in the equity markets. A portion of this revenue is based on the value of the underlying investment portfolios, many of which include equity investments. If the values of those investment portfolios decrease, whether due to factors influencing U.S. or international securities markets in general or otherwise, the Corporation's revenue would be negatively impacted. In addition, the Corporation's ability to sell its brokerage services in the future will be dependent, in part, upon consumers' level of confidence in financial markets.

#### Debt Security Market Price Risk

Debt security market price risk is the risk that changes in the values of debt securities, unrelated to interest rate changes, could have a material impact on the financial position or results of operations of the Corporation. The Corporation's debt security investments consist primarily of U.S. government sponsored agency issued mortgage-backed securities and collateralized mortgage obligations, state and municipal securities, U.S. government debt securities, auction rate securities and corporate debt securities. All of the Corporation's investments in mortgage-backed securities and collateralized mortgage obligations have principal payments that are guaranteed by U.S. government sponsored agencies.

#### Municipal Securities

As of December 31, 2015, the Corporation owned \$262.8 million of municipal securities issued by various municipalities. Ongoing uncertainty with respect to the financial strength of municipal bond insurers places much greater emphasis on the underlying strength of issuers. Continued pressure on local tax revenues of issuers due to adverse economic conditions could have an adverse impact on the underlying credit quality of issuers. The Corporation evaluates existing and potential holdings primarily based on

the creditworthiness of the issuing municipality and then, to a lesser extent, on any underlying credit enhancement. Municipal securities can be supported by the general obligation of the issuing municipality, allowing the securities to be repaid by any means available to the issuing municipality. As of December 31, 2015, approximately 96% of municipal securities were supported by the general obligation of corresponding municipalities. Approximately 75% of these securities were school district issuances, which are also supported by the states of the issuing municipalities.

#### Auction Rate Securities

As of December 31, 2015, the Corporation's investments in student loan auction rate securities, also known as auction rate certificates (ARCs), had a cost basis of \$106.8 million and a fair value of \$98.1 million.

ARCs are long-term securities that were structured to allow their sale in periodic auctions, resulting in both the treatment of ARCs as short-term instruments in normal market conditions and fair values that could be derived based on periodic auction prices. However, beginning in 2008, market auctions for these securities began to fail due to an insufficient number of buyers, resulting in an illiquid market. Therefore, as of December 31, 2015, the fair values of the ARCs currently in the portfolio were derived using significant unobservable inputs based on an expected cash flows model which produced fair values which were materially different from those that would be expected from settlement of these investments in the current market. The expected cash flows model produced fair values which assumed a return to market liquidity sometime within the next five years. The Corporation believes that the trusts underlying the ARCs will self-liquidate as student loans are repaid.

The credit quality of the underlying debt associated with the ARCs is also a factor in the determination of their estimated fair value. As of December 31, 2015, all of the ARCs were rated above investment grade, with approximately \$5.6 million, or 6%, "AAA" rated and \$92.5 million, or 94%, "AA" rated. All of the loans underlying the ARCs have principal payments which are guaranteed by the federal government. At December 31, 2015, all of the Corporation's ARCs were current and making scheduled interest payments.

#### Corporate Debt Securities

The Corporation holds corporate debt securities in the form of pooled trust preferred securities, single-issuer trust preferred securities and subordinated debt issued by financial institutions. As of December 31, 2015, these securities had an amortized cost of \$100.3 million and an estimated fair value of \$97.0 million.

The amortized cost of pooled trust preferred securities is the purchase price of the securities, net of cumulative credit related other-than-temporary impairment charges, determined using an expected cash flow model. The most significant input to the expected cash flows model is the expected payment deferral rate for each pooled trust preferred security. The Corporation evaluates the financial metrics, such as capital ratios and non-performing asset ratios, of the individual financial institution issuers that comprise each pooled trust preferred security to estimate its expected deferral rate.

The fair values for pooled trust preferred securities and certain single-issuer trust preferred securities were based on quotes provided by third-party brokers who determined fair values based predominantly on internal valuation models which were not indicative prices or binding offers.

See "Note 3 - Investment Securities," in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data for further discussion related to the Corporation's other-than-temporary impairment evaluations for debt securities, and see "Note 18 - Fair Value Measurements," in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data for further discussion related to the fair values of debt securities.



## Item 8. Financial Statements and Supplementary Data

## CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per-share data)

	December 31,	
	2015	2014
Assets		
Cash and due from banks	\$101,120	\$105,702
Interest-bearing deposits with other banks	230,300	358,130
Federal Reserve Bank and Federal Home Loan Bank stock	62,216	64,953
Loans held for sale	16,886	17,522
Available for sale investment securities	2,484,773	2,323,371
Loans, net of unearned income	13,838,602	13,111,716
Allowance for loan losses	(169,054	) (184,144
Net Loans	13,669,548	12,927,572
Premises and equipment	225,535	226,027
Accrued interest receivable	42,767	41,818
Goodwill and intangible assets	531,556	531,803
Other assets	550,017	527,869
Total Assets	\$17,914,718	\$17,124,767
Liabilities		
Deposits:		
Noninterest-bearing	\$3,948,114	\$3,640,623
Interest-bearing	10,184,203	9,726,883
Total Deposits	14,132,317	13,367,506
Short-term borrowings:		
Federal funds purchased	197,235	6,219
Other short-term borrowings	300,428	323,500
Total Short-Term Borrowings	497,663	329,719
Accrued interest payable	10,724	18,045
Other liabilities	282,578	273,419
Federal Home Loan Bank advances and long-term debt	949,542	1,139,413
Total Liabilities	15,872,824	15,128,102
Shareholders' Equity		
Common stock, \$2.50 par value, 600 million shares authorized, 218.9 million shares issued in 2015 and 218.2 million shares issued in 2014	547,141	545,555
Additional paid-in capital	1,450,690	1,420,523
Retained earnings	641,588	558,810
Accumulated other comprehensive loss	(22,017	) (17,722
Treasury stock, 44.7 million shares in 2015 and 39.3 million shares in 2014	(575,508	) (510,501
Total Shareholders' Equity	2,041,894	1,996,665
Total Liabilities and Shareholders' Equity	\$17,914,718	\$17,124,767

See Notes to Consolidated Financial Statements



## CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands, except per-share data)

	2015	2014	2013
Interest Income			
Loans, including fees	\$524,060	\$530,308	\$540,667
Investment securities:			
Taxable	45,279	50,651	54,321
Tax-exempt	7,879	8,977	9,475
Dividends	985	1,338	1,411
Loans held for sale	801	786	1,551
Other interest income	4,785	4,018	2,264
Total Interest Income	583,789	596,078	609,689
Interest Expense			
Deposits	40,482	35,110	36,770
Short-term borrowings	372	1,608	2,420
Long-term debt	42,941	44,493	43,305
Total Interest Expense	83,795	81,211	82,495
Net Interest Income	499,994	514,867	527,194
Provision for credit losses	2,250	12,500	40,500
Net Interest Income After Provision for Credit Losses	497,744	502,367	486,694
Non-Interest Income			
Service charges on deposit accounts	50,097	49,293	55,470
Investment management and trust services	44,056	44,605	41,706
Other service charges and fees	43,992	39,896	36,957
Mortgage banking income	18,208	17,107	30,656
Other	16,420	14,437	14,871
Investment securities gains (losses):			
Net gains on sales of investment securities	9,066	2,071	8,128
Net other-than-temporary impairment losses	—	(30)	(124)
Investment securities gains, net	9,066	2,041	8,004
Total Non-Interest Income	181,839	167,379	187,664
Non-Interest Expense			
Salaries and employee benefits	260,832	251,021	253,240
Net occupancy expense	47,777	48,130	46,944
Other outside services	27,785	28,404	18,856
Data processing	19,894	17,162	16,555
Software	14,746	12,758	11,560
Equipment expense	14,514	13,567	15,419
FDIC insurance expense	11,470	10,958	11,605
Professional fees	11,244	12,097	13,150
Supplies and postage	10,202	9,795	10,210
Marketing	7,324	8,133	7,705
Telecommunications	6,350	6,870	7,362
Loss on redemption of trust preferred securities	5,626	—	—
Other real estate owned and repossession expense	3,630	3,270	7,364
Operating risk loss	3,624	4,271	9,290
Intangible amortization	247	1,259	2,438
Other	34,895	31,551	29,735
Total Non-Interest Expense	480,160	459,246	461,433

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Income Before Income Taxes	199,423	210,500	212,925
Income taxes	49,921	52,606	51,085
Net Income	\$149,502	\$157,894	\$161,840
Per Share:			
Net Income (Basic)	\$0.85	\$0.85	\$0.84
Net Income (Diluted)	0.85	0.84	0.83
Cash Dividends	0.38	0.34	0.32

See Notes to Consolidated Financial Statements

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	2015	2014	2013
Net Income	\$149,502	\$157,894	\$161,840
Other Comprehensive (Loss) Income, net of tax:			
Unrealized (losses) gains on available for sale investment securities:			
Unrealized (loss) gain on securities	(7,717 )	33,734	(49,607 )
Reclassification adjustment for securities gains included in net income	(5,892 )	(1,327 )	(5,203 )
Non-credit related unrealized gain on other-than-temporarily impaired debt securities	239	780	1,977
Net unrealized (losses) gains on available for sale investment securities	(13,370 )	33,187	(52,833 )
Unrealized gains on derivative financial instruments:			
Unrealized gain on derivative financial instruments	75	136	136
Reclassification adjustment for loss on derivative financial instruments included in net income	2,456	—	—
Net unrealized gains on derivative financial instruments	2,531	136	136
Defined benefit pension plan and postretirement benefits:			
Unrecognized pension and postretirement income (cost)	4,680	(13,168 )	8,369
Amortization of net unrecognized pension and postretirement income	1,864	408	1,312
Reclassification adjustment for post-retirement plan curtailment gain included in net income	—	(944 )	—
Net unrealized gains (losses) on pension and postretirement plans	6,544	(13,704 )	9,681
Other Comprehensive (Loss) Income	(4,295 )	19,619	(43,016 )
Total Comprehensive Income	\$145,207	\$177,513	\$118,824

See Notes to Consolidated Financial Statements

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands, except per share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares Outstanding	Amount					
Balance at December 31, 2012	199,225	\$542,093	\$1,426,267	\$363,937	\$ 5,675	\$(256,316)	\$2,081,656
Net income				161,840			161,840
Other comprehensive loss					(43,016 )		(43,016 )
Stock issued, including related tax benefits	1,427	2,475	1,377			6,386	10,238
Stock-based compensation awards			5,330				5,330
Acquisition of treasury stock (8,000 )						(90,927 )	(90,927 )
Common stock cash dividends - \$0.32 per share				(61,934 )			(61,934 )
Balance at December 31, 2013	192,652	\$544,568	\$1,432,974	\$463,843	\$(37,341 )	\$(340,857)	\$2,063,187
Net income				157,894			157,894
Other comprehensive income					19,619		19,619
Stock issued, including related tax benefits	781	987	1,684			5,611	8,282
Stock-based compensation awards			5,865				5,865
Acquisition of treasury stock (14,509 )						(175,255 )	(175,255 )
Deferred accelerated stock repurchase			(20,000 )				(20,000 )
Common stock cash dividends - \$0.34 per share				(62,927 )			(62,927 )
Balance at December 31, 2014	178,924	\$545,555	\$1,420,523	\$558,810	\$(17,722 )	\$(510,501)	\$1,996,665
Net income				149,502			149,502
Other comprehensive loss							