

FULTON FINANCIAL CORP
Form 10-K
February 26, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

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

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.

1

TABLE OF CONTENTS

Description	Page
PART I	
Item 1. <u>Business</u>	<u>3</u>
Item 1A. <u>Risk Factors</u>	<u>15</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>26</u>
Item 2. <u>Properties</u>	<u>27</u>
Item 3. <u>Legal Proceedings</u>	<u>27</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>28</u>
PART II	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>29</u>
Item 6. <u>Selected Financial Data</u>	<u>31</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>33</u>
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>63</u>
Item 8. <u>Financial Statements and Supplementary Data:</u>	
<u>Consolidated Balance Sheets</u>	<u>68</u>
<u>Consolidated Statements of Income</u>	<u>69</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>70</u>
<u>Consolidated Statements of Shareholders’ Equity</u>	<u>71</u>
<u>Consolidated Statements of Cash Flows</u>	<u>72</u>
<u>Notes to Consolidated Financial Statements</u>	<u>73</u>
<u>Management Report On Internal Control Over Financial Reporting</u>	<u>125</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>126</u>
<u>Quarterly Consolidated Results of Operations (unaudited)</u>	<u>127</u>
Item 9. <u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	<u>128</u>
Item 9A. <u>Controls and Procedures</u>	<u>128</u>
Item 9B. <u>Other Information</u>	<u>128</u>
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>129</u>
Item 11. <u>Executive Compensation</u>	<u>129</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>129</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>129</u>
Item 14. <u>Principal Accounting Fees and Services</u>	<u>129</u>
PART IV	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	<u>130</u>
<u>Signatures</u>	<u>132</u>
<u>Exhibit Index</u>	<u>134</u>

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. 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. 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 (dollars in millions)	Total Deposits	Branches (1)
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
				243

(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

Columbia Bancorp Statutory Trust III

Delaware

6,186

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.

4

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	%

Camden