

FULTON FINANCIAL CORP
Form 10-Q
November 06, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20459

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015, or

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

For the transition period from _____ to _____

Commission File No. 0-10587

FULTON FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

PENNSYLVANIA

(State or other jurisdiction of
incorporation or organization)

23-2195389

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

One Penn Square, P.O. Box 4887, Lancaster, Pennsylvania
(Address of principal executive offices)

17604

(Zip Code)

(717) 291-2411

(Registrant's telephone number, including area code)

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company in Rule 12b-2 of the Exchange Act.

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 Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common Stock, \$2.50 Par Value -174,031,000 shares outstanding as of October 30, 2015.

FULTON FINANCIAL CORPORATION
 FORM 10-Q FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015
 INDEX

| Description | Page |
|--|-----------|
| PART I. FINANCIAL INFORMATION | |
| <u>Item 1. Financial Statements (Unaudited):</u> | |
| (a) <u>Consolidated Balance Sheets - September 30, 2015 and December 31, 2014</u> | <u>3</u> |
| (b) <u>Consolidated Statements of Income - Three and nine months ended September 30, 2015 and 2014</u> | <u>4</u> |
| (c) <u>Consolidated Statements of Comprehensive Income - Three and nine months ended September 30, 2015 and 2014</u> | <u>5</u> |
| (d) <u>Consolidated Statements of Shareholders' Equity - Nine months ended September 30, 2015 and 2014</u> | <u>6</u> |
| (e) <u>Consolidated Statements of Cash Flows - Nine months ended September 30, 2015 and 2014</u> | <u>7</u> |
| (f) <u>Notes to Consolidated Financial Statements</u> | <u>8</u> |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | <u>39</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u> | <u>67</u> |
| <u>Item 4. Controls and Procedures</u> | <u>71</u> |
| <u>PART II. OTHER INFORMATION</u> | |
| <u>Item 1. Legal Proceedings</u> | <u>72</u> |
| <u>Item 1A. Risk Factors</u> | <u>72</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>73</u> |
| <u>Item 3. Defaults Upon Senior Securities</u> | <u>73</u> |
| Item 4. Mine Safety Disclosures | <u>73</u> |
| <u>Item 5. Other Information</u> | <u>73</u> |
| <u>Item 6. Exhibits</u> | <u>73</u> |
| <u>Signatures</u> | <u>74</u> |

Exhibit Index

75

2

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

(in thousands, except per-share data)

| | September 30, 2015 (unaudited) | December 31, 2014 |
|--|--------------------------------------|----------------------|
| ASSETS | | |
| Cash and due from banks | \$93,803 | \$105,702 |
| Interest-bearing deposits with other banks | 510,943 | 358,130 |
| Federal Reserve Bank and Federal Home Loan Bank stock | 68,977 | 64,953 |
| Loans held for sale | 26,937 | 17,522 |
| Available for sale investment securities | 2,436,337 | 2,323,371 |
| Loans, net of unearned income | 13,536,361 | 13,111,716 |
| Less: Allowance for loan losses | (167,136) | (184,144) |
| Net Loans | 13,369,225 | 12,927,572 |
| Premises and equipment | 225,705 | 226,027 |
| Accrued interest receivable | 42,846 | 41,818 |
| Goodwill and intangible assets | 531,562 | 531,803 |
| Other assets | 531,724 | 527,869 |
| Total Assets | \$17,838,059 | \$17,124,767 |
| LIABILITIES | | |
| Deposits: | | |
| Noninterest-bearing | \$3,906,228 | \$3,640,623 |
| Interest-bearing | 10,178,166 | 9,726,883 |
| Total Deposits | 14,084,394 | 13,367,506 |
| Short-term borrowings: | | |
| Federal funds purchased | 5,527 | 6,219 |
| Other short-term borrowings | 426,104 | 323,500 |
| Total Short-Term Borrowings | 431,631 | 329,719 |
| Accrued interest payable | 14,727 | 18,045 |
| Other liabilities | 301,970 | 273,419 |
| Federal Home Loan Bank advances and long-term debt | 979,433 | 1,139,413 |
| Total Liabilities | 15,812,155 | 15,128,102 |
| SHAREHOLDERS' EQUITY | | |
| Common stock, \$2.50 par value, 600 million shares authorized, 218.6 million shares issued in 2015 and 218.2 million shares issued in 2014 | 546,444 | 545,555 |
| Additional paid-in capital | 1,447,569 | 1,420,523 |
| Retained earnings | 622,237 | 558,810 |
| Accumulated other comprehensive loss | (13,219) | (17,722) |
| Treasury stock, at cost, 44.8 million shares in 2015 and 39.3 million shares in 2014 | (577,127) | (510,501) |
| Total Shareholders' Equity | 2,025,904 | 1,996,665 |

| | | |
|--|--------------|--------------|
| Total Liabilities and Shareholders' Equity | \$17,838,059 | \$17,124,767 |
|--|--------------|--------------|

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

| (in thousands, except per-share data) | Three months ended | | Nine months ended | |
|---|--------------------|------------|-------------------|------------|
| | September 30 | | September 30 | |
| | 2015 | 2014 | 2015 | 2014 |
| INTEREST INCOME | | | | |
| Loans, including fees | \$ 131,804 | \$ 133,741 | \$ 391,491 | \$ 397,011 |
| Investment securities: | | | | |
| Taxable | 11,252 | 12,278 | 33,478 | 37,962 |
| Tax-exempt | 1,904 | 2,219 | 5,872 | 6,865 |
| Dividends | 190 | 339 | 834 | 996 |
| Loans held for sale | 194 | 237 | 632 | 585 |
| Other interest income | 884 | 976 | 3,922 | 3,065 |
| Total Interest Income | 146,228 | 149,790 | 436,229 | 446,484 |
| INTEREST EXPENSE | | | | |
| Deposits | 10,217 | 8,998 | 30,093 | 25,579 |
| Short-term borrowings | 92 | 297 | 272 | 1,470 |
| Long-term debt | 10,225 | 11,129 | 33,669 | 32,606 |
| Total Interest Expense | 20,534 | 20,424 | 64,034 | 59,655 |
| Net Interest Income | 125,694 | 129,366 | 372,195 | 386,829 |
| Provision for credit losses | 1,000 | 3,500 | (500) | 9,500 |
| Net Interest Income After Provision for Credit Losses | 124,694 | 125,866 | 372,695 | 377,329 |
| NON-INTEREST INCOME | | | | |
| Service charges on deposit accounts | 12,982 | 12,801 | 37,188 | 37,064 |
| Investment management and trust services | 11,237 | 11,120 | 33,137 | 33,417 |
| Other service charges and fees | 10,965 | 9,954 | 31,316 | 29,407 |
| Mortgage banking income | 3,864 | 4,038 | 13,891 | 13,384 |
| Investment securities gains, net: | | | | |
| Net gains on sales of investment securities | 1,730 | 99 | 8,290 | 1,223 |
| Net other-than-temporary impairment losses | — | (18) | — | (30) |
| Investment securities gains, net | 1,730 | 81 | 8,290 | 1,193 |
| Other | 3,996 | 3,906 | 12,178 | 10,813 |
| Total Non-Interest Income | 44,774 | 41,900 | 136,000 | 125,278 |
| NON-INTEREST EXPENSE | | | | |
| Salaries and employee benefits | 65,308 | 62,434 | 195,365 | 185,623 |
| Net occupancy expense | 10,710 | 11,582 | 36,211 | 36,649 |
| Other outside services | 7,373 | 8,632 | 21,248 | 19,684 |
| Loss on redemption of trust preferred securities | 5,626 | — | 5,626 | — |
| Data processing | 5,105 | 4,689 | 14,767 | 12,816 |
| Software | 3,984 | 3,353 | 10,678 | 9,487 |
| Equipment expense | 3,595 | 3,307 | 10,888 | 10,269 |
| FDIC insurance expense | 2,867 | 2,882 | 8,574 | 8,186 |
| Professional fees | 2,828 | 3,252 | 8,430 | 9,715 |
| Supplies and postage | 2,708 | 2,560 | 7,803 | 7,337 |
| Marketing | 2,102 | 1,798 | 5,570 | 5,719 |
| Telecommunications | 1,587 | 1,587 | 4,920 | 5,193 |

Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

| | | | | |
|--|----------|----------|-----------|-----------|
| Operating risk loss | 1,136 | 1,242 | 2,637 | 3,786 |
| Other real estate owned and repossession expense | 1,016 | 1,303 | 2,507 | 3,034 |
| Intangible amortization | 5 | 314 | 241 | 944 |
| Other | 8,939 | 6,863 | 26,256 | 23,084 |
| Total Non-Interest Expense | 124,889 | 115,798 | 361,721 | 341,526 |
| Income Before Income Taxes | 44,579 | 51,968 | 146,974 | 161,081 |
| Income taxes | 10,328 | 13,402 | 36,007 | 41,136 |
| Net Income | \$34,251 | \$38,566 | \$110,967 | \$119,945 |

PER SHARE:

| | | | | |
|----------------------|--------|--------|--------|--------|
| Net Income (Basic) | \$0.20 | \$0.21 | \$0.63 | \$0.64 |
| Net Income (Diluted) | 0.20 | 0.21 | 0.63 | 0.64 |
| Cash Dividends | 0.09 | 0.08 | 0.27 | 0.24 |

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|------------------------------------|----------|-----------------------------------|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| Net Income | \$34,251 | \$38,566 | \$110,967 | \$119,945 |
| Other Comprehensive Income (Loss), net of tax: | | | | |
| Unrealized gain (loss) on securities | 7,857 | (3,011) | 5,841 | 23,912 |
| Reclassification adjustment for postretirement amendment gains included in net income | — | — | — | (944) |
| Reclassification adjustment for securities gains included in net income | (1,124) | (52) | (5,388) | (775) |
| Reclassification adjustment for loss on derivative financial instruments included in net income | 2,456 | — | 2,456 | — |
| Non-credit related unrealized gain on other-than-temporarily impaired debt securities | — | 138 | 125 | 650 |
| Amortization of unrealized loss on derivative financial instruments | 3 | 34 | 71 | 102 |
| Unrecognized postretirement income arising due to plan amendment | — | — | — | 2,144 |
| Amortization of net unrecognized pension and postretirement items | 466 | 104 | 1,398 | 304 |
| Other Comprehensive Income (Loss) | 9,658 | (2,787) | 4,503 | 25,393 |
| Total Comprehensive Income | \$43,909 | \$35,779 | \$115,470 | \$145,338 |

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)
NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

(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, 2014 | 178,924 | \$545,555 | \$1,420,523 | \$558,810 | \$ (17,722) | \$(510,501) | \$1,996,665 |
| Net income | | | | 110,967 | | | 110,967 |
| Other comprehensive income | | | | | 4,503 | | 4,503 |
| Stock issued, including related tax benefits | 613 | 889 | 2,675 | | | 3,374 | 6,938 |
| Stock-based compensation awards | | | 4,371 | | | | 4,371 |
| Acquisition of treasury stock (3,976) | | | | | | (50,000) | (50,000) |
| Settlement of accelerated stock repurchase agreement (1,790) | | | 20,000 | | | (20,000) | — |
| Common stock cash dividends - \$0.27 per share | | | | (47,540) | | | (47,540) |
| Balance at September 30, 2015 | 173,771 | \$546,444 | \$1,447,569 | \$622,237 | \$ (13,219) | \$(577,127) | \$2,025,904 |
| Balance at December 31, 2013 | 192,652 | \$544,568 | \$1,432,974 | \$463,843 | \$ (37,341) | \$(340,857) | \$2,063,187 |
| Net income | | | | 119,945 | | | 119,945 |
| Other comprehensive income | | | | | 25,393 | | 25,393 |
| Stock issued, including related tax benefits | 506 | 639 | 1,059 | | | 3,767 | 5,465 |
| Stock-based compensation awards | | | 4,310 | | | | 4,310 |
| Acquisition of treasury stock (8,000) | | | | | | (95,255) | (95,255) |
| Common stock cash dividends - \$0.24 per share | | | | (45,039) | | | (45,039) |
| Balance at September 30, 2014 | 185,158 | \$545,207 | \$1,438,343 | \$538,749 | \$ (11,948) | \$(432,345) | \$2,078,006 |

See Notes to Consolidated
Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

| | Nine months ended September 30 | |
|---|-----------------------------------|--------------|
| | 2015 | 2014 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income | \$ 110,967 | \$ 119,945 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit losses | (500 |) 9,500 |
| Depreciation and amortization of premises and equipment | 20,302 | 18,412 |
| Net amortization of investment securities premiums | 5,369 | 4,399 |
| Net gains on sales of investment securities | (8,290 |) (1,193) |
| Net increase in loans held for sale | (9,415 |) (3,861) |
| Amortization of intangible assets | 241 | 944 |
| Stock-based compensation | 4,371 | 4,310 |
| Excess tax benefits from stock-based compensation | (86 |) (54) |
| Loss on redemption of trust preferred securities | 5,626 | — |
| (Increase) decrease in accrued interest receivable | (1,028 |) 493 |
| Decrease (increase) in other assets | 6,683 | (1,909) |
| (Decrease) increase in accrued interest payable | (3,318 |) 2,207 |
| Increase (decrease) in other liabilities | 3,995 | (5,315) |
| Total adjustments | 23,950 | 27,933 |
| Net cash provided by operating activities | 134,917 | 147,878 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sales of securities available for sale | 29,309 | 15,219 |
| Proceeds from maturities of securities available for sale | 317,813 | 273,688 |
| Purchase of securities available for sale | (444,111 |) (164,676) |
| Increase in short-term investments | (156,837 |) (129,418) |
| Net increase in loans | (440,681 |) (271,494) |
| Net purchases of premises and equipment | (19,980 |) (16,832) |
| Net cash used in investing activities | (714,487 |) (293,513) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net increase in demand and savings deposits | 852,611 | 768,979 |
| Net (decrease) increase in time deposits | (135,723 |) 73,462 |
| Increase (decrease) in short-term borrowings | 101,912 | (693,677) |
| Additions to long-term debt | 347,778 | 140,000 |
| Repayments of long-term debt | (509,606 |) (5,295) |
| Net proceeds from issuance of common stock | 6,852 | 5,411 |
| Excess tax benefits from stock-based compensation | 86 | 54 |
| Dividends paid | (46,239 |) (45,638) |
| Acquisition of treasury stock | (50,000 |) (95,255) |
| Net cash provided by financing activities | 567,671 | 148,041 |
| Net (Decrease) Increase in Cash and Due From Banks | (11,899 |) 2,406 |
| Cash and Due From Banks at Beginning of Period | 105,702 | 218,540 |

Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

| | | |
|--|----------|-----------|
| Cash and Due From Banks at End of Period | \$93,803 | \$220,946 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid during the period for: | | |
| Interest | \$67,352 | \$57,448 |
| Income taxes | 9,168 | 16,632 |
| See Notes to Consolidated Financial Statements | | |

7

FULTON FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 – Basis of Presentation

The accompanying unaudited consolidated financial statements of Fulton Financial Corporation (the "Corporation") have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities as of the date of the financial statements as well as revenues and expenses during the period. Actual results could differ from those estimates. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. The Corporation evaluates subsequent events through the date of filing of this Form 10-Q with the Securities and Exchange Commission ("SEC").

Recent Accounting Standards

Effective January 1, 2015, the Corporation adopted the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") Update 2014-01, "Accounting for Investments in Qualified Affordable Housing Projects." ASC Update 2014-01 provides guidance on accounting for investments made by a reporting entity in flow-through limited liability entities that manage or invest in affordable housing projects that qualify for the low income housing tax credit. The Corporation has made certain investments in partnerships that generate tax credits under various federal programs which promote investment in low and moderate income housing and local economic development. The net income tax benefit associated with these investments, which consists of the amortization of the investments net of tax benefit, and the income tax credits earned on the investments recorded in income taxes on the consolidated income statements was \$2.3 million and \$2.1 million for the three months ended September 30, 2015 and 2014, respectively, and \$7.1 million and \$7.4 million for the nine months ended September 30, 2015 and 2014, respectively. As of September 30, 2015 and December 31, 2014, the Corporation's tax credit investments, included in other assets on the consolidated balance sheets, totaled \$164.0 million and \$155.6 million, respectively. The adoption of this ASC update did not have a material impact on the Corporation's consolidated financial statements for the three or nine months ended September 30, 2015 or 2014.

In February 2015, the FASB issued ASC Update 2015-02, "Consolidation: Amendments to the Consolidation Analysis." ASC Update 2015-02 changes the way reporting enterprises evaluate whether: (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity ("VIE"), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. ASC Update 2015-02 is effective for public business entities' annual and interim reporting periods beginning after December 15, 2015, with earlier adoption permitted. The Corporation intends to adopt this standards update effective with its March 31, 2016 quarterly report on Form 10-Q, and does not expect the adoption of ASC Update 2015-02 to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASC Update 2015-03, "Interest - Imputation of Interest" and updated ASC Update 2015-03 with the issuance of ASC Update 2015-15, "Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements," in August of 2015. ASC Update 2015-03 simplifies the presentation of debt issuances costs. Debt issuance costs related to a recognized debt liability will be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. Under current U.S. GAAP, debt issuance costs are reported on the balance sheet as assets. The costs will continue to be amortized to interest expense using the effective interest method. ASC Update 2015-03 is effective for public business entities' annual and interim reporting periods beginning after December 15, 2015, with earlier adoption permitted. The Corporation intends to adopt this standards update effective with its March 31, 2016 quarterly report on Form 10-Q and does not expect the adoption of ASC Update 2015-03 to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASC Update 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." ASC Update 2015-05 provides explicit guidance to determine when a customer's fees paid in a cloud computing arrangement is for the acquisition of software licenses, services, or both. ASC Update 2015-05 is effective for public business entities' annual and interim reporting periods beginning after December 15, 2015, with earlier adoption permitted. The Corporation intends to adopt

this standards update effective with its March 31, 2016 quarterly report on Form 10-Q and does not expect the adoption of ASC Update 2015-05 to have a material impact on its consolidated financial statements.

NOTE 2 – Net Income Per Share

Basic net income per share is calculated as net income divided by the weighted average number of shares outstanding. Diluted net income per share is calculated as net income divided by the weighted average number of shares outstanding plus the incremental number of shares added as a result of converting common stock equivalents, calculated using the treasury stock method. The Corporation's common stock equivalents consist of outstanding stock options, restricted stock, restricted stock units ("RSUs") and performance based restricted stock units ("PSUs"). PSUs are required to be included in weighted average shares outstanding if performance measures, as defined in each PSU award agreement, are met as of the end of the period.

A reconciliation of weighted average shares outstanding used to calculate basic net income per share and diluted net income per share follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|------------------------------------|---------|-----------------------------------|---------|
| | 2015 | 2014 | 2015 | 2014 |
| | (in thousands) | | | |
| Weighted average shares outstanding (basic) | 174,338 | 186,109 | 176,399 | 187,893 |
| Impact of common stock equivalents | 1,004 | 846 | 1,029 | 970 |
| Weighted average shares outstanding (diluted) | 175,342 | 186,955 | 177,428 | 188,863 |

For the three and nine months ended September 30, 2015, 1.5 million and 1.8 million stock options, respectively, were excluded from the diluted net income per share computation as their effect would have been anti-dilutive. For the three and nine months ended September 30, 2014, 2.5 million and 2.9 million stock options, respectively, were excluded from the diluted net income per share computation as their effect would have been anti-dilutive.

NOTE 3 – Accumulated Other Comprehensive Income

The following table presents changes in other comprehensive income:

| | Before-Tax Amount (in thousands) | Tax Effect | Net of Tax Amount |
|---|--|-------------|----------------------|
| Three months ended September 30, 2015 | | | |
| Unrealized gain on securities | \$12,088 | \$(4,231) | \$7,857 |
| Reclassification adjustment for securities gains included in net income (1) | (1,730) | 606 | (1,124) |
| Reclassification adjustment for loss on derivative financial instruments included in net income (2) | 3,778 | (1,322) | 2,456 |
| Amortization of unrealized loss on derivative financial instruments | 5 | (2) | 3 |
| Amortization of net unrecognized pension and postretirement items (3) | 717 | (251) | 466 |
| Total Other Comprehensive Income | \$14,858 | \$(5,200) | \$9,658 |
| Three months ended September 30, 2014 | | | |
| Unrealized loss on securities | \$(4,629) | \$1,618 | \$(3,011) |
| Reclassification adjustment for securities gains included in net income (1) | (81) | 29 | (52) |
| Non-credit related unrealized gains on other-than-temporarily impaired debt securities | 212 | (74) | 138 |
| Amortization of unrealized loss on derivative financial instruments | 52 | (18) | 34 |
| Amortization of net unrecognized pension and postretirement items (3) | 160 | (56) | 104 |
| Total Other Comprehensive Loss | \$(4,286) | \$1,499 | \$(2,787) |
| Nine months ended September 30, 2015 | | | |
| Unrealized gain on securities | \$8,987 | \$(3,146) | \$5,841 |
| Reclassification adjustment for securities gains included in net income (1) | (8,290) | 2,902 | (5,388) |
| Reclassification adjustment for loss on derivative financial instruments included in net income (2) | 3,778 | (1,322) | 2,456 |
| Non-credit related unrealized gains (losses) on other-than-temporarily impaired debt securities | 192 | (67) | 125 |
| Amortization of unrealized loss on derivative financial instruments | 110 | (39) | 71 |
| Amortization of net unrecognized pension and postretirement items (3) | 2,151 | (753) | 1,398 |
| Total Other Comprehensive Income | \$6,928 | \$(2,425) | \$4,503 |
| Nine months ended September 30, 2014 | | | |
| Unrealized gain on securities | \$36,790 | \$(12,878) | \$23,912 |
| Reclassification adjustment for securities gains included in net income (1) | (1,193) | 418 | (775) |
| Reclassification adjustment for postretirement gains included in net income (3) | (1,452) | 508 | (944) |
| Non-credit related unrealized gains (losses) on other-than-temporarily impaired debt securities | 1,000 | (350) | 650 |
| Amortization of unrealized loss on derivative financial instruments | 157 | (55) | 102 |
| Unrecognized pension and postretirement income | 3,291 | (1,147) | 2,144 |
| Amortization of net unrecognized pension and postretirement items (3) | 469 | (165) | 304 |
| Total Other Comprehensive Income | \$39,062 | \$(13,669) | \$25,393 |

Amounts reclassified out of accumulated other comprehensive income. Before-tax amounts included within (1) "Investment securities gains, net" on the consolidated statements of income. See Note 4, "Investment Securities," for additional details.

Amount reclassified out of accumulated other comprehensive income. Before-tax amount included within "Loss on (2) Redemption of Trust Preferred Securities" on the consolidated statements of income. See Note 15, "Long-Term Debt," for additional details.

Amounts reclassified out of accumulated other comprehensive income. Before-tax amounts included within (3) "Salaries and employee benefits" on the consolidated statements of income. See Note 8, "Employee Benefit Plans," for additional details.

The following table presents changes in each component of accumulated other comprehensive income, net of tax:

| | Unrealized Gains (Losses) on Investment Securities Not Other-Than- Impaired (in thousands) | Unrealized Non-Credit (Losses) on Other-Than- Impaired Securities Temporarily | Unrealized Gains Effective Portions of Losses on Forward-Starting Interest Rate Swaps | Unrecognized Pension and Postretirement Plan Income (Costs) | Total |
|---|---|---|--|---|------------|
| Three months ended September 30, 2015 | | | | | |
| Balance at June 30, 2015 | \$830 | \$ 344 | \$ (2,478) | \$ (21,573) | \$(22,877) |
| Other comprehensive loss before reclassifications | 7,857 | — | — | — | 7,857 |
| Amounts reclassified from accumulated other comprehensive income (loss) | (1,124) | — | 3 | 466 | (655) |
| Reclassification adjustment for loss on derivative financial instruments included in net income | — | — | 2,456 | — | 2,456 |
| Balance at September 30, 2015 | \$7,563 | \$ 344 | \$ (19) | \$ (21,107) | \$(13,219) |
| Three months ended September 30, 2014 | | | | | |
| Balance at June 30, 2014 | \$(580) | \$ 1,434 | \$ (2,614) | \$ (7,401) | \$(9,161) |
| Other comprehensive income before reclassifications | (3,011) | 138 | — | — | (2,873) |
| Amounts reclassified from accumulated other comprehensive income (loss) | (63) | 11 | 34 | 104 | 86 |
| Balance at September 30, 2014 | \$(3,654) | \$ 1,583 | \$ (2,580) | \$ (7,297) | \$(11,948) |
| Nine months ended September 30, 2015 | | | | | |
| Balance at December 31, 2014 | \$5,980 | \$ 1,349 | \$ (2,546) | \$ (22,505) | \$(17,722) |
| Other comprehensive income before reclassifications | 5,841 | 125 | — | — | 5,966 |
| Amounts reclassified from accumulated other comprehensive income (loss) | (4,258) | (1,130) | 71 | 1,398 | (3,919) |
| Reclassification adjustment for loss on derivative financial instruments included in net income | — | — | 2,456 | — | 2,456 |
| Balance at September 30, 2015 | \$7,563 | \$ 344 | \$ (19) | \$ (21,107) | \$(13,219) |
| Nine months ended September 30, 2014 | | | | | |
| Balance at December 31, 2013 | \$(27,510) | \$ 1,652 | \$ (2,682) | \$ (8,801) | \$(37,341) |
| Other comprehensive income before reclassifications | 23,912 | 650 | — | 2,144 | 26,706 |
| Amounts reclassified from accumulated other comprehensive income (loss) | (56) | (719) | 102 | (640) | (1,313) |
| Balance at September 30, 2014 | \$(3,654) | \$ 1,583 | \$ (2,580) | \$ (7,297) | \$(11,948) |

NOTE 4 – Investment Securities

The following table presents the amortized cost and estimated fair values of investment securities, which were all classified as available for sale:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|-------------------|------------------------------|-------------------------------|----------------------------|
| (in thousands) | | | | |
| September 30, 2015 | | | | |
| Equity securities | \$ 16,087 | \$ 7,453 | \$(8 |) \$ 23,532 |
| U.S. Government sponsored agency securities | 48,320 | 231 | — | 48,551 |
| State and municipal securities | 234,868 | 5,430 | (62 |) 240,236 |
| Corporate debt securities | 102,297 | 2,935 | (5,291 |) 99,941 |
| Collateralized mortgage obligations | 879,738 | 5,638 | (11,077 |) 874,299 |
| Mortgage-backed securities | 1,036,193 | 16,845 | (1,133 |) 1,051,905 |
| Auction rate securities | 106,661 | — | (8,788 |) 97,873 |
| | \$ 2,424,164 | \$ 38,532 | \$(26,359 |) \$ 2,436,337 |
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| (in thousands) | | | | |
| December 31, 2014 | | | | |
| Equity securities | \$ 33,469 | \$ 14,167 | \$(13 |) \$ 47,623 |
| U.S. Government securities | 200 | — | — | 200 |
| U.S. Government sponsored agency securities | 209 | 5 | — | 214 |
| State and municipal securities | 238,250 | 7,231 | (266 |) 245,215 |
| Corporate debt securities | 99,016 | 5,126 | (6,108 |) 98,034 |
| Collateralized mortgage obligations | 917,395 | 5,705 | (20,787 |) 902,313 |
| Mortgage-backed securities | 914,797 | 16,978 | (2,944 |) 928,831 |
| Auction rate securities | 108,751 | — | (7,810 |) 100,941 |
| | \$ 2,312,087 | \$ 49,212 | \$(37,928 |) \$ 2,323,371 |

Securities carried at \$1.8 billion as of September 30, 2015 and \$1.7 billion as of December 31, 2014 were pledged as collateral to secure public and trust deposits and customer repurchase agreements.

Equity securities include common stocks of financial institutions (estimated fair value of \$22.4 million at September 30, 2015 and \$41.8 million at December 31, 2014) and other equity investments (estimated fair value of \$1.1 million at September 30, 2015 and \$5.8 million at December 31, 2014).

As of September 30, 2015, the financial institutions stock portfolio had a cost basis of \$15.1 million and an estimated fair value of \$22.4 million, including an investment in a single financial institution with a cost basis of \$8.5 million and an estimated fair value of \$12.8 million. The estimated fair value of this investment accounted for 57.1% of the estimated fair value of the Corporation's investments in the common stocks of publicly traded financial institutions. No other investment within the financial institutions stock portfolio exceeded 5% of the portfolio's estimated fair value.

The amortized cost and estimated fair values of debt securities as of September 30, 2015, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | Amortized Cost (in thousands) | Estimated Fair Value |
|-------------------------------------|-------------------------------------|-------------------------|
| Due in one year or less | \$62,247 | \$63,023 |
| Due from one year to five years | 104,989 | 107,283 |
| Due from five years to ten years | 132,930 | 136,571 |
| Due after ten years | 191,980 | 179,724 |
| | 492,146 | 486,601 |
| Collateralized mortgage obligations | 879,738 | 874,299 |
| Mortgage-backed securities | 1,036,193 | 1,051,905 |
| | \$2,408,077 | \$2,412,805 |

The following table presents information related to the gross realized gains and losses on the sales of equity and debt securities:

| | Gross Realized Gains | Gross Realized Losses | Other-than- temporary Impairment Losses | Net Gains (Losses) |
|---------------------------------------|----------------------------|-----------------------------|--|-----------------------|
| | (in thousands) | | | |
| Three months ended September 30, 2015 | | | | |
| Equity securities | \$1,730 | \$— | \$— | \$1,730 |
| Debt securities | — | — | — | — |
| Total | \$1,730 | \$— | \$— | \$1,730 |
| Three months ended September 30, 2014 | | | | |
| Equity securities | \$99 | \$— | \$— | \$99 |
| Debt securities | — | — | (18 |) (18 |
| Total | \$99 | \$— | \$(18 |) \$81 |
| Nine months ended September 30, 2015 | | | | |
| Equity securities | \$5,990 | \$— | \$— | \$5,990 |
| Debt securities | 2,300 | — | — | 2,300 |
| Total | \$8,290 | \$— | \$— | \$8,290 |
| Nine months ended September 30, 2014 | | | | |
| Equity securities | \$100 | \$— | \$(12 |) \$88 |
| Debt securities | 1,446 | (323 |) (18 |) 1,105 |
| Total | \$1,546 | \$(323 |) \$(30 |) \$1,193 |

The following table presents a summary of the cumulative credit related other-than-temporary impairment charges, recognized as components of earnings, for debt securities held by the Corporation at September 30, 2015 and 2014:

| | Three months ended | | Nine months ended | |
|---|----------------------|------------|----------------------|------------|
| | September 30 2015 | 2014 | September 30 2015 | 2014 |
| | (in thousands) | | | |
| Balance of cumulative credit losses on debt securities, beginning of period | \$(11,510) | \$(17,214) | \$(16,242) | \$(20,691) |
| Additions for credit losses recorded which were not previously recognized as components of earnings | — | (18) | — | (18) |
| Reductions for securities sold during the period | — | — | 4,730 | 3,472 |
| Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security | — | — | 2 | 5 |
| Balance of cumulative credit losses on debt securities, end of period | \$(11,510) | \$(17,232) | \$(11,510) | \$(17,232) |

The following table presents the gross unrealized losses and estimated fair values of investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at September 30, 2015:

| | Less than 12 months | | 12 months or longer | | Total | |
|---|----------------------|-------------------|----------------------|-------------------|----------------------|-------------------|
| | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses |
| | (in thousands) | | | | | |
| U.S. Government sponsored agency securities | \$— | \$— | \$— | \$— | \$— | \$— |
| State and municipal securities | 11,892 | (62) | — | — | 11,892 | (62) |
| Corporate debt securities | 7,968 | (15) | 33,718 | (5,276) | 41,686 | (5,291) |
| Collateralized mortgage obligations | 30,723 | (62) | 493,703 | (11,015) | 524,426 | (11,077) |
| Mortgage-backed securities | 161,097 | (443) | 67,071 | (690) | 228,168 | (1,133) |
| Auction rate securities | — | — | 97,873 | (8,788) | 97,873 | (8,788) |
| Total debt securities | 211,680 | (582) | 692,365 | (25,769) | 904,045 | (26,351) |
| Equity securities | — | — | 13 | (8) | 13 | (8) |
| | \$211,680 | \$(582) | \$692,378 | \$(25,777) | \$904,058 | \$(26,359) |

The Corporation's collateralized mortgage obligations and mortgage-backed securities have contractual terms that generally do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the decline in market value of these securities is attributable to changes in interest rates and not credit quality, and because the Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, the Corporation does not consider these investments to be other-than-temporarily impaired as of September 30, 2015.

The unrealized holding losses on auction rate securities (auction rate certificates, or "ARCs"), are attributable to liquidity issues resulting from the failure of periodic auctions. The Corporation had previously purchased ARCs for investment management and trust customers as short-term investments with fair values that could be derived based on periodic auctions under normal market conditions. During 2008 and 2009, the Corporation purchased ARCs from these customers due to the failure of these periodic auctions, which made these previously short-term investments illiquid.

As of September 30, 2015, all of the ARCs were rated above investment grade, with approximately \$5.4 million, or 6%, "AAA" rated and \$92.4 million, or 94%, "AA" rated. All of the loans underlying the ARCs have principal payments which are guaranteed by the federal government.

As of September 30, 2015, all ARCs were current and making scheduled interest payments. Based on management's evaluations, ARCs with an estimated fair value of \$97.9 million were not subject to any other-than-temporary impairment charges as of September 30, 2015. The Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, which may be at maturity.

For its investments in equity securities, particularly its investments in stocks of financial institutions, management evaluates the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on that evaluation and the Corporation's ability and intent to hold those investments for a reasonable period of time sufficient for a recovery of fair value,

the Corporation does not consider those investments with unrealized holding losses as of September 30, 2015 to be other-than-temporarily impaired.

The majority of the Corporation's available for sale corporate debt securities are issued by financial institutions. The following table presents the amortized cost and estimated fair value of corporate debt securities:

| | September 30, 2015 | | December 31, 2014 | |
|--|--------------------|----------------------|-------------------|----------------------|
| | Amortized cost | Estimated fair value | Amortized cost | Estimated fair value |
| | (in thousands) | | | |
| Single-issuer trust preferred securities | \$46,624 | \$41,787 | \$47,569 | \$42,016 |
| Subordinated debt | 51,625 | 53,576 | 47,530 | 50,023 |
| Pooled trust preferred securities | — | 530 | 2,010 | 4,088 |
| Corporate debt securities issued by financial institutions | 98,249 | 95,893 | 97,109 | 96,127 |
| Other corporate debt securities | 4,048 | 4,048 | 1,907 | 1,907 |
| Available for sale corporate debt securities | \$102,297 | \$99,941 | \$99,016 | \$98,034 |

The Corporation's investments in single-issuer trust preferred securities had an unrealized loss of \$4.8 million at September 30, 2015. The Corporation did not record any other-than-temporary impairment charges for single-issuer trust preferred securities during the three or nine months ended September 30, 2015 or 2014. Seven of the Corporation's 19 single-issuer trust preferred securities were rated below investment grade by at least one ratings agency, with an amortized cost of \$14.5 million and an estimated fair value of \$13.2 million at September 30, 2015. All of the single-issuer trust preferred securities rated below investment grade were rated "BB" or "Ba". Two single-issuer trust preferred securities with an amortized cost of \$3.7 million and an estimated fair value of \$2.7 million at September 30, 2015 were not rated by any ratings agency.

During the nine months ended September 30, 2015, the Corporation sold three pooled trust preferred securities with a total amortized cost of \$1.9 million, for a gain of \$2.3 million. As of September 30, 2015, both of the Corporation's remaining pooled trust preferred securities, with an amortized cost of \$0 and an estimated fair value of \$530,000, were rated below investment grade by at least one ratings agency, with ratings ranging from "C" to "Ca". The class of securities held by the Corporation was below the most senior tranche, with the Corporation's interests being subordinate to other investors in the pool. The Corporation determines the fair value of pooled trust preferred securities based on quotes provided by third-party brokers.

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 flows 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 assets ratios, of the individual financial institution issuers that comprise each pooled trust preferred security to estimate its expected deferral rate.

Based on management's evaluations, corporate debt securities with a fair value of \$99.9 million were not subject to any other-than-temporary impairment charges as of September 30, 2015. The Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, which may be at maturity.

NOTE 5 – Loans and Allowance for Credit Losses

Loans, Net of Unearned Income

Loans, net of unearned income are summarized as follows:

| | September 30, 2015 | December 31, 2014 |
|---|-----------------------|----------------------|
| | (in thousands) | |
| Real-estate - commercial mortgage | \$5,339,928 | \$5,197,155 |
| Commercial - industrial, financial and agricultural | 3,929,908 | 3,725,567 |
| Real-estate - home equity | 1,693,649 | 1,736,688 |
| Real-estate - residential mortgage | 1,382,085 | 1,377,068 |
| Real-estate - construction | 769,565 | 690,601 |
| Consumer | 271,696 | 265,431 |
| Leasing and other | 161,911 | 127,562 |
| Overdrafts | 2,614 | 4,021 |
| Loans, gross of unearned income | 13,551,356 | 13,124,093 |
| Unearned income | (14,995 |) (12,377 |
| Loans, net of unearned income | \$13,536,361 | \$13,111,716 |

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 incurred losses in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheet. The allowance for credit losses is increased by charges to expense, through the provision for credit losses, and decreased by charge-offs, net of recoveries.

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

The Corporation segments its loan portfolio by general loan type, or "portfolio segments," as presented in the table under the heading, "Loans, Net of Unearned Income," above. 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. Commercial loans 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 include direct consumer installment loans and indirect automobile loans.

The following table presents the components of the allowance for credit losses:

| | September 30, 2015 | December 31, 2014 |
|--|-----------------------|----------------------|
| | (in thousands) | |
| Allowance for loan losses | \$167,136 | \$184,144 |
| Reserve for unfunded lending commitments | 2,259 | 1,787 |
| Allowance for credit losses | \$169,395 | \$185,931 |

The following table presents the activity in the allowance for credit losses:

| | Three months ended September 30 2015 | | Nine months ended September 30 2015 | |
|--|--|-----------|---|-----------|
| | 2015 | 2014 | 2015 | 2014 |
| | (in thousands) | | | |
| Balance at beginning of period | \$169,453 | \$193,442 | \$185,931 | \$204,917 |
| Loans charged off | (5,561) | (9,604) | (26,697) | (31,348) |
| Recoveries of loans previously charged off | 4,503 | 3,770 | 10,661 | 8,039 |
| Net loans charged off | (1,058) | (5,834) | (16,036) | (23,309) |
| Provision for credit losses | 1,000 | 3,500 | (500) | 9,500 |
| Balance at end of period | \$169,395 | \$191,108 | \$169,395 | \$191,108 |

The following table presents the activity in the allowance for loan losses by portfolio segment:

| | Real Estate Commercial Mortgage | Commercial Industrial, Financial and Agricultural | Real Estate Home Equity | Real Estate Residential Mortgage | Real Estate - Construction | Consumer | Leasing and other and overdrafts | Unallocated | Total |
|---|---------------------------------------|--|-------------------------------|--|----------------------------------|----------|--|-------------|-----------|
| | (in thousands) | | | | | | | | |
| Three months ended September 30, 2015 | | | | | | | | | |
| Balance at June 30, 2015 | \$50,680 | \$49,170 | \$22,506 | \$22,787 | \$7,749 | \$2,608 | \$1,615 | \$10,370 | \$167,485 |
| Loans charged off | (660) | (1,640) | (940) | (1,035) | (114) | (650) | (522) | — | (5,561) |
| Recoveries of loans previously charged off | 842 | 1,598 | 304 | 201 | 898 | 314 | 346 | — | 4,503 |
| Net loans charged off | 182 | (42) | (636) | (834) | 784 | (336) | (176) | — | (1,058) |
| Provision for loan losses (1) | 825 | (405) | 180 | (609) | (964) | 282 | 223 | 1,177 | 709 |
| Balance at September 30, 2015 | \$51,687 | \$48,723 | \$22,050 | \$21,344 | \$7,569 | \$2,554 | \$1,662 | \$11,547 | \$167,136 |
| Three months ended September 30, 2014 | | | | | | | | | |
| Balance at June 30, 2014 | \$49,842 | \$49,084 | \$32,041 | \$32,744 | \$11,331 | \$3,306 | \$1,851 | \$11,486 | \$191,685 |
| Loans charged off | (1,557) | (5,167) | (1,492) | (231) | (313) | (538) | (306) | — | (9,604) |

Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

| | | | | | | | | | |
|--|----------|-----------|----------|----------|----------|----------|----------|----------|-----------|
| Recoveries of loans previously charged off | 1,167 | 1,013 | 336 | 95 | 470 | 448 | 241 | — | 3,770 |
| Net loans charged off | (390) | (4,154) | (1,156) | (136) | 157 | (90) | (65) | — | (5,834) |
| Provision for loan losses (1) | (278) | 6,110 | 406 | 397 | (312) | 244 | 180 | (3,121) | 3,626 |
| Balance at September 30, 2014 | \$49,174 | \$51,040 | \$31,291 | \$33,005 | \$11,176 | \$3,460 | \$1,966 | \$8,365 | \$189,477 |
| Nine months ended September 30, 2015 | | | | | | | | | |
| Balance at December 31, 2014 | \$53,493 | \$51,378 | \$28,271 | \$29,072 | \$9,756 | \$3,015 | \$1,799 | \$7,360 | \$184,144 |
| Loans charged off | (3,011) | (14,669) | (2,578) | (3,099) | (201) | (1,787) | (1,352) | — | (26,697) |
| Recoveries of loans previously charged off | 1,729 | 3,855 | 744 | 547 | 2,276 | 923 | 587 | — | 10,661 |
| Net loans charged off | (1,282) | (10,814) | (1,834) | (2,552) | 2,075 | (864) | (765) | — | (16,036) |
| Provision for loan losses (1) | (524) | 8,159 | (4,387) | (5,176) | (4,262) | 403 | 628 | 4,187 | (972) |
| Balance at September 30, 2015 | \$51,687 | \$48,723 | \$22,050 | \$21,344 | \$7,569 | \$2,554 | \$1,662 | \$11,547 | \$167,136 |
| Nine months ended September 30, 2014 | | | | | | | | | |
| Balance at December 31, 2013 | \$55,659 | \$50,330 | \$28,222 | \$33,082 | \$12,649 | \$3,260 | \$3,370 | \$16,208 | \$202,780 |
| Loans charged off | (5,084) | (15,804) | (4,377) | (2,166) | (745) | (1,738) | (1,434) | — | (31,348) |
| Recoveries of loans previously charged off | 1,641 | 2,532 | 869 | 319 | 852 | 1,059 | 767 | — | 8,039 |
| Net loans charged off | (3,443) | (13,272) | (3,508) | (1,847) | 107 | (679) | (667) | — | (23,309) |
| Provision for loan losses (1) | (3,042) | 13,982 | 6,577 | 1,770 | (1,580) | 879 | (737) | (7,843) | 10,006 |
| Balance at September 30, 2014 | \$49,174 | \$51,040 | \$31,291 | \$33,005 | \$11,176 | \$3,460 | \$1,966 | \$8,365 | \$189,477 |

The provision for loan losses excluded a \$291,000 and \$472,000 increase, respectively, in the reserve for unfunded lending commitments for the three and nine months ended September 30, 2015 and a \$126,000 and \$506,000 decrease, respectively, in the reserve for unfunded lending commitments for the three and nine months ended (1) September 30, 2014. The total provision for credit losses, comprised of allocations for both funded and unfunded loans, was \$1.0 million and negative \$500,000, respectively, for the three and nine months ended September 30, 2015 and \$3.5 million and \$9.5 million, respectively, for the three and nine months ended September 30, 2014.

The following table presents loans, net of unearned income and their related allowance for loan losses, by portfolio segment:

| | Real Estate - Commercial Mortgage (in thousands) | Commercial Industrial, Financial and Agricultural | Real Estate - Home Equity | Real Estate - Residential Mortgage | Real Estate - Construction | Consumer | Leasing and other and overdrafts | Unallocated (1) | Total |
|---|--|--|------------------------------------|---|----------------------------------|-----------|---|--------------------|--------------|
| Allowance for loan losses at September 30, 2015: | | | | | | | | | |
| Measured for impairment under FASB ASC Subtopic 450-20 | \$38,490 | \$36,002 | \$14,867 | \$7,921 | \$5,119 | \$2,535 | \$1,662 | \$11,547 | \$118,143 |
| Evaluated for impairment under FASB ASC Section 310-10-35 | 13,197 | 12,721 | 7,183 | 13,423 | 2,450 | 19 | — | N/A | 48,993 |
| | \$51,687 | \$48,723 | \$22,050 | \$21,344 | \$7,569 | \$2,554 | \$1,662 | \$11,547 | \$167,136 |
| Loans, net of unearned income at September 30, 2015: | | | | | | | | | |
| Measured for impairment under FASB ASC Subtopic 450-20 | \$5,273,819 | \$3,885,956 | \$1,679,471 | \$1,330,778 | \$750,629 | \$271,667 | \$149,530 | N/A | \$13,341,850 |
| Evaluated for impairment under FASB ASC Section 310-10-35 | 66,109 | 43,952 | 14,178 | 51,307 | 18,936 | 29 | — | N/A | 194,511 |
| | \$5,339,928 | \$3,929,908 | \$1,693,649 | \$1,382,085 | \$769,565 | \$271,696 | \$149,530 | N/A | \$13,536,361 |
| Allowance for loan losses at September 30, 2014: | | | | | | | | | |
| Measured for impairment under FASB ASC Subtopic 450-20 | \$32,951 | \$39,098 | \$21,666 | \$11,503 | \$6,009 | \$3,439 | \$1,966 | \$8,365 | \$124,997 |
| Evaluated for impairment under FASB ASC Section 310-10-35 | 16,223 | 11,942 | 9,625 | 21,502 | 5,167 | 21 | — | N/A | 64,480 |
| | \$49,174 | \$51,040 | \$31,291 | \$33,005 | \$11,176 | \$3,460 | \$1,966 | \$8,365 | \$189,477 |
| Loans, net of unearned income at September 30, 2014: | | | | | | | | | |
| | \$5,095,263 | \$3,655,162 | \$1,719,049 | \$1,319,333 | \$658,822 | \$278,196 | \$111,148 | N/A | \$12,836,973 |

| | | | | | | | | | |
|---|-------------|-------------|-------------|-------------|-----------|-----------|-----------|-----|--------------|
| Measured for impairment under FASB ASC Subtopic 450-20 Evaluated for impairment under FASB ASC Section 310-10-35 | 61,716 | 36,100 | 13,987 | 52,700 | 28,906 | 23 | — | N/A | 193,432 |
| | \$5,156,979 | \$3,691,262 | \$1,733,036 | \$1,372,033 | \$687,728 | \$278,219 | \$111,148 | N/A | \$13,030,405 |

The unallocated allowance, which was approximately 7% and 4% of the total allowance for credit losses as of both (1) September 30, 2015 and September 30, 2014, was, in the opinion of management, reasonable and appropriate given that the estimates used in the allocation process are inherently imprecise.

N/A Not applicable.

Impaired Loans

A loan is considered to be impaired if it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. Impaired loans consist of all loans on non-accrual status and accruing troubled debt restructurings ("TDRs"). An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. Impaired loans to borrowers with total outstanding commitments greater than or equal to \$1.0 million are evaluated individually for impairment. Impaired loans to borrowers with total outstanding commitments less than \$1.0 million are pooled and measured for impairment collectively.

Based on an evaluation of all relevant credit quality factors, the Corporation recorded a \$500,000 negative provision for credit losses during the nine months ended September 30, 2015, compared to a \$9.5 million provision for credit losses for the same period in 2014. The \$10.0 million decrease in the provision for credit losses was driven by improvement in all credit quality measures, particularly net charge-off levels, across all loan portfolio segments. All loans individually evaluated for impairment under FASB ASC Section 310-10-35 are measured for losses on a quarterly basis.

As of September 30, 2015 and December 31, 2014, substantially all of the Corporation's individually evaluated impaired loans with total outstanding balances greater than or equal to \$1.0 million were measured based on the estimated fair value of each loan's collateral. Collateral could be in the form of real estate, in the case of impaired commercial mortgages and construction loans, or business assets, such as accounts receivable or inventory, in the case of commercial and industrial loans. Commercial and industrial loans may also be secured by real property.

As of September 30, 2015 and 2014, approximately 77% of impaired loans with principal balances greater than or equal to \$1.0 million, whose primary collateral is real estate, were measured at estimated fair value using state certified third-party appraisals that had been updated within the preceding 12 months.

When updated 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 an acceptable

loan-to-value position and, in the opinion of the Corporation's internal loan evaluation staff, there has not been a significant deterioration in the collateral value since the original appraisal was performed. Original appraisals are typically used only when the estimated collateral value, as adjusted 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%.

The following table presents total impaired loans by class segment:

| | September 30, 2015 | | | December 31, 2014 | | |
|---------------------------------------|--------------------------------|------------------------|----------------------|--------------------------------|------------------------|----------------------|
| | Unpaid Principal Balance | Recorded Investment | Related Allowance | Unpaid Principal Balance | Recorded Investment | Related Allowance |
| | (in thousands) | | | | | |
| With no related allowance recorded: | | | | | | |
| Real estate - commercial mortgage | \$31,961 | \$26,075 | \$— | \$25,802 | \$23,236 | \$— |
| Commercial - secured | 22,097 | 17,661 | — | 17,599 | 14,582 | — |
| Commercial - unsecured | 86 | 86 | — | — | — | — |
| Real estate - home equity | — | — | — | — | — | — |
| Real estate - residential mortgage | 6,607 | 6,201 | — | 4,873 | 4,873 | — |
| Construction - commercial residential | 13,353 | 10,417 | — | 18,041 | 14,801 | — |
| Construction - commercial | 1,295 | 1,143 | — | 1,707 | 1,581 | — |
| | 75,399 | 61,583 | | 68,022 | 59,073 | |
| With a related allowance recorded: | | | | | | |
| Real estate - commercial mortgage | 48,734 | 40,034 | 13,197 | 49,619 | 40,023 | 16,715 |
| Commercial - secured | 29,415 | 23,533 | 11,789 | 24,824 | 19,335 | 12,165 |
| Commercial - unsecured | 2,832 | 2,672 | 932 | 1,241 | 1,089 | 865 |
| Real estate - home equity | 18,854 | 14,178 | 7,183 | 19,392 | 13,458 | 9,224 |
| Real estate - residential mortgage | 54,604 | 45,106 | 13,423 | 56,607 | 46,478 | 18,592 |
| Construction - commercial residential | 9,613 | 6,019 | 1,985 | 14,007 | 7,903 | 2,675 |
| Construction - commercial | 1,223 | 1,077 | 363 | 1,501 | 1,023 | 459 |
| Construction - other | 452 | 280 | 102 | 452 | 281 | 137 |
| Consumer - direct | 14 | 14 | 10 | 19 | 19 | 17 |
| Consumer - indirect | 15 | 15 | 9 | 20 | 19 | 18 |
| | 165,756 | 132,928 | 48,993 | 167,682 | 129,628 | 60,867 |
| Total | \$241,155 | \$194,511 | \$48,993 | \$235,704 | \$188,701 | \$60,867 |

As of September 30, 2015 and December 31, 2014, there were \$61.6 million and \$59.1 million, respectively, of impaired loans that did not have a related allowance for loan loss. The estimated fair values of the collateral securing these loans exceeded their carrying amount, or they were previously charged down to realizable collateral values. Accordingly, no specific valuation allowance was considered to be necessary.

The following table presents average impaired loans by class segment:

| | Three months ended September 30 | | | | Nine months ended September 30 | | | |
|---------------------------------------|---------------------------------|---------------------|-----------------------------|---------------------|--------------------------------|---------------------|-----------------------------|---------------------|
| | 2015 | | 2014 | | 2015 | | 2014 | |
| | Average Recorded Investment | Interest Income (1) | Average Recorded Investment | Interest Income (1) | Average Recorded Investment | Interest Income (1) | Average Recorded Investment | Interest Income (1) |
| | (in thousands) | | | | | | | |
| With no related allowance recorded: | | | | | | | | |
| Real estate - commercial mortgage | \$25,216 | \$68 | \$23,056 | \$78 | \$26,033 | \$246 | \$23,524 | 244 |
| Commercial - secured | 17,609 | 28 | 18,903 | 29 | 16,142 | 74 | 20,014 | 98 |
| Commercial - unsecured | 43 | — | — | — | 22 | — | — | — |
| Real estate - home equity | — | — | 150 | — | — | — | 225 | 1 |
| Real estate - residential mortgage | 6,212 | 34 | 1,236 | 7 | 5,539 | 94 | 697 | 13 |
| Construction - commercial residential | 10,558 | 28 | 14,881 | 51 | 12,390 | 124 | 16,052 | 173 |
| Construction - commercial | 1,150 | — | 1,060 | — | 1,144 | — | 1,514 | — |
| | 60,788 | 158 | 59,286 | 165 | 61,270 | 538 | 62,026 | 529 |
| With a related allowance recorded: | | | | | | | | |
| Real estate - commercial mortgage | 40,572 | 110 | 38,469 | 130 | 40,116 | 368 | 37,794 | 394 |
| Commercial - secured | 22,386 | 36 | 19,764 | 30 | 23,668 | 111 | 21,404 | 101 |
| Commercial - unsecured | 2,788 | 1 | 850 | 1 | 1,981 | 4 | 847 | 3 |
| Real estate - home equity | 13,728 | 37 | 14,116 | 30 | 13,417 | 101 | 14,106 | 78 |
| Real estate - residential mortgage | 46,039 | 254 | 51,283 | 298 | 46,406 | 797 | 51,257 | 894 |
| Construction - commercial residential | 5,746 | 15 | 11,189 | 38 | 6,496 | 64 | 10,480 | 100 |
| Construction - commercial | 1,210 | — | 942 | — | 1,005 | — | 567 | — |
| Construction - other | 281 | — | 281 | — | 281 | — | 414 | — |
| Consumer - direct | 15 | — | 18 | — | 18 | — | 15 | — |
| Consumer - indirect | 15 | — | 6 | — | 17 | — | 4 | — |
| | 132,780 | 453 | 136,918 | 527 | 133,405 | 1,445 | 136,888 | 1,570 |
| Total | \$193,568 | \$611 | \$196,204 | \$692 | \$194,675 | \$1,983 | \$198,914 | 2,099 |

(1) All impaired loans, excluding accruing TDRs, were non-accrual loans. Interest income recognized for the three and nine months ended September 30, 2015 and 2014 represents amounts earned on accruing TDRs.

Credit Quality Indicators and Non-performing Assets

The following table presents internal credit risk ratings for real estate - commercial mortgages, commercial - secured loans, commercial - unsecured loans, construction - commercial residential loans and construction - commercial loans:

| | Pass | | Special Mention | | Substandard or Lower | | Total | | |
|---|------------------------|-------------------|--------------------|-------------------|----------------------|-------------------|--------------------|-------------------|---|
| | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 | |
| | (dollars in thousands) | | | | | | | | |
| Real estate - commercial mortgage | \$5,028,655 | \$4,899,016 | \$132,823 | \$127,302 | \$178,450 | \$170,837 | \$5,339,928 | \$5,197,155 | |
| Commercial - secured | 3,579,389 | 3,333,486 | 97,617 | 120,584 | 105,820 | 110,544 | 3,782,826 | 3,564,614 | |
| Commercial - unsecured | 138,709 | 146,680 | 3,568 | 7,463 | 4,805 | 6,810 | 147,082 | 160,953 | |
| Total commercial - industrial, financial and agricultural | 3,718,098 | 3,480,166 | 101,185 | 128,047 | 110,625 | 117,354 | 3,929,908 | 3,725,567 | |
| Construction - commercial residential | 144,329 | 136,109 | 16,763 | 27,495 | 29,429 | 40,066 | 190,521 | 203,670 | |
| Construction - commercial | 514,969 | 409,631 | 1,693 | 12,202 | 5,204 | 5,586 | 521,866 | 427,419 | |
| Total construction (excluding Construction - other) | 659,298 | 545,740 | 18,456 | 39,697 | 34,633 | 45,652 | 712,387 | 631,089 | |
| | \$9,406,051 | \$8,924,922 | \$252,464 | \$295,046 | \$323,708 | \$333,843 | \$9,982,223 | \$9,553,811 | |
| % of Total | 94.2 | % 93.4 | % 2.5 | % 3.1 | % 3.3 | % 3.5 | % 100.0 | % 100.0 | % |

The following is a summary of the Corporation's internal risk rating categories:

Pass: These loans do not currently pose undue credit risk and can range from the highest to average quality, depending on the degree of potential risk.

Special Mention: These loans constitute an undue and unwarranted credit risk, but not to a point of justifying a classification of substandard. Loans in this category are currently acceptable, but are nevertheless potentially weak.

Substandard or Lower: These loans are inadequately protected by current sound worth and paying capacity of the borrower. There exists a well-defined weakness or weaknesses that jeopardize the normal repayment of the debt.

The risk rating process allows management to identify riskier credits in a timely manner and to allocate resources to managing troubled accounts. The Corporation believes that internal risk ratings are the most relevant credit quality indicator for the class segments presented above. The migration of loans through the various internal risk rating categories is a significant component of the allowance for credit loss methodology, which bases the probability of default on this migration. Assigning risk ratings involves judgment. Risk ratings are initially assigned to loans by loan officers and are reviewed on a regular basis by credit administration staff. The Corporation's loan review officers

provide a separate 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 activities identify a deterioration or an improvement in the loan.

The Corporation does not assign internal risk ratings to smaller balance, homogeneous loans, such as home equity, residential mortgage, consumer, lease receivables and construction loans to individuals secured by residential real estate. For these loans, the most relevant credit quality indicator is delinquency status. The migration of loans through the various delinquency status categories is a significant component of the allowance for credit losses methodology for those loans, which bases the probability of default on this migration.

The following table presents a summary of delinquency and non-performing status for home equity, real estate - residential mortgages, construction loans to individuals and consumer, leasing and other loans by class segment:

| | Performing | | Delinquent (1) | | Non-performing (2) | | Total | |
|------------------------------------|------------------------|-------------------|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|
| | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 | September 30, 2015 | December 31, 2014 |
| | (dollars in thousands) | | | | | | | |
| Real estate - home equity | \$1,671,473 | \$1,711,017 | \$9,069 | \$10,931 | \$13,107 | \$14,740 | \$1,693,649 | \$1,736,688 |
| Real estate - residential mortgage | 1,336,877 | 1,321,139 | 17,501 | 26,934 | 27,707 | 28,995 | 1,382,085 | 1,377,068 |
| Construction - other | 56,482 | 59,180 | — | — | 696 | 332 | 57,178 | 59,512 |
| Consumer - direct | 98,576 | 104,018 | 2,697 | 2,891 | 1,961 | 2,414 | 103,234 | 109,323 |
| Consumer - indirect | 166,040 | 153,358 | 2,304 | 2,574 | 118 | 176 | 168,462 | 156,108 |
| Total consumer | 264,616 | 257,376 | 5,001 | 5,465 | 2,079 | 2,590 | 271,696 | 265,431 |
| Leasing and other and overdrafts | 148,980 | 118,550 | 464 | 523 | 86 | 133 | 149,530 | 119,206 |
| | \$3,478,428 | \$3,467,262 | \$32,035 | \$43,853 | \$43,675 | \$46,790 | \$3,554,138 | \$3,557,905 |
| % of Total | 97.9 | % 97.5 | % 0.9 | % 1.2 | % 1.2 | % 1.3 | % 100.0 | % 100.0 |

(1) Includes all accruing loans 31 days to 89 days past due.

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

The following table presents non-performing assets:

| | September 30, 2015 | December 31, 2014 |
|---|--------------------|-------------------|
| | (in thousands) | |
| Non-accrual loans | \$132,154 | \$121,080 |
| Accruing loans 90 days or more past due | 12,867 | 17,402 |
| Total non-performing loans | 145,021 | 138,482 |
| Other real estate owned (OREO) | 10,561 | 12,022 |
| Total non-performing assets | \$155,582 | \$150,504 |

The following table presents TDRs, by class segment:

| | September 30, 2015 | December 31, 2014 |
|---------------------------------------|--------------------|-------------------|
| | (in thousands) | |
| Real-estate - residential mortgage | \$29,330 | \$31,308 |
| Real-estate - commercial mortgage | 17,282 | 18,822 |
| Commercial - secured | 7,259 | 5,170 |
| Construction - commercial residential | 4,363 | 9,241 |
| Real estate - home equity | 3,954 | 2,975 |
| Commercial - unsecured | 140 | 67 |

| | | |
|----------------------|----------|----------|
| Consumer - indirect | 15 | 19 |
| Consumer - direct | 14 | 19 |
| Total accruing TDRs | 62,357 | 67,621 |
| Non-accrual TDRs (1) | 27,618 | 24,616 |
| Total TDRs | \$89,975 | \$92,237 |

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

As of September 30, 2015 and December 31, 2014, there were \$5.3 million and \$3.9 million, respectively, of commitments to lend additional funds to borrowers whose loans were modified under TDRs.

The following table presents TDRs, by class segment as of September 30, 2015 and 2014, that were modified during the three and nine months ended September 30, 2015 and 2014:

| | Three months ended September 30 | | | | Nine months ended September 30 | | | |
|---------------------------------------|---------------------------------|---------------------|-----------------|---------------------|--------------------------------|---------------------|-----------------|---------------------|
| | 2015 | | 2014 | | 2015 | | 2014 | |
| | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |
| | (dollars in thousands) | | | | | | | |
| Commercial - secured | 3 | \$ 1,380 | 3 | \$ 1,214 | 14 | \$ 9,203 | 4 | \$ 1,357 |
| Real estate - home equity | 14 | 562 | 6 | 764 | 39 | 1,793 | 26 | 1,627 |
| Real estate - residential mortgage | 2 | 229 | 3 | 256 | 10 | 1,295 | 18 | 2,092 |
| Real estate - commercial mortgage | 2 | 188 | 1 | 391 | 6 | 2,815 | 10 | 10,195 |
| Construction - commercial residential | — | — | — | — | 1 | 889 | 2 | 1,914 |
| Commercial - unsecured | — | — | — | — | 1 | 42 | — | — |
| Consumer - indirect | — | — | — | — | 1 | 13 | 4 | 7 |
| Consumer - direct | — | — | — | — | — | — | 6 | 8 |
| Total | 21 | \$ 2,359 | 13 | \$ 2,625 | 72 | \$ 16,050 | 70 | \$ 17,200 |

The following table presents TDRs, by class segment, as of September 30, 2015 and 2014, that were modified within the previous 12 months and had a post-modification payment default during the nine months ended September 30, 2015 and 2014. The Corporation defines a payment default as a single missed payment.

| | 2015 | | 2014 | |
|---------------------------------------|------------------------|---------------------|-----------------|---------------------|
| | Number of Loans | Recorded Investment | Number of Loans | Recorded Investment |
| | (dollars in thousands) | | | |
| Commercial - secured | 6 | \$3,855 | 3 | \$415 |
| Real estate - residential mortgage | 4 | 500 | 8 | 1,147 |
| Real estate - home equity | 9 | 459 | 5 | 724 |
| Real estate - commercial mortgage | 2 | 233 | 1 | 35 |
| Construction - commercial residential | — | — | 3 | 2,509 |
| Total | 21 | \$5,047 | 20 | \$4,830 |

The following table presents past due status and non-accrual loans by portfolio segment and class segment:

| | September 30, 2015 | | | | | | | |
|---|--|--|--|-----------------|--------------------|-------------------|--------------|--------------|
| | 31-59 Days Past Due (in thousands) | 60-89 Days Past Due (in thousands) | ≥ 90 Days Past Due and Accruing | Non- accrual | Total ≥ 90 Days | Total Past Due | Current | Total |
| Real estate - commercial mortgage | \$7,322 | \$1,169 | \$194 | \$48,827 | \$49,021 | \$57,512 | \$5,282,416 | \$5,339,928 |
| Commercial - secured | 6,909 | 4,536 | 1,414 | 33,935 | 35,349 | 46,794 | 3,736,032 | 3,782,826 |
| Commercial - unsecured | 2,380 | 15 | 65 | 2,618 | 2,683 | 5,078 | 142,004 | 147,082 |
| Total commercial - industrial, financial and agricultural | 9,289 | 4,551 | 1,479 | 36,553 | 38,032 | 51,872 | 3,878,036 | 3,929,908 |
| Real estate - home equity | 6,312 | 2,757 | 2,883 | 10,224 | 13,107 | 22,176 | 1,671,473 | 1,693,649 |
| Real estate - residential mortgage | 11,499 | 6,002 | 5,730 | 21,977 | 27,707 | 45,208 | 1,336,877 | 1,382,085 |
| Construction - commercial residential | 1,832 | 231 | — | 12,073 | 12,073 | 14,136 | 176,385 | 190,521 |
| Construction - commercial | 265 | — | — | 2,220 | 2,220 | 2,485 | 519,381 | 521,866 |
| Construction - other | — | — | 416 | 280 | 696 | 696 | 56,482 | 57,178 |
| Total real estate - construction | 2,097 | 231 | 416 | 14,573 | 14,989 | 17,317 | 752,248 | 769,565 |
| Consumer - direct | 1,398 | 1,299 | 1,961 | — | 1,961 | 4,658 | 98,576 | 103,234 |
| Consumer - indirect | 1,962 | 342 | 118 | — | 118 | 2,422 | 166,040 | 168,462 |
| Total consumer | 3,360 | 1,641 | 2,079 | — | 2,079 | 7,080 | 264,616 | 271,696 |
| Leasing and other and overdrafts | 449 | 15 | 86 | — | 86 | 550 | 148,980 | 149,530 |
| Total | \$40,328 | \$16,366 | \$12,867 | \$132,154 | \$145,021 | \$201,715 | \$13,334,646 | \$13,536,361 |
| | December 31, 2014 | | | | | | | |
| | 31-59 Days Past Due (in thousands) | 60-89 Days Past Due (in thousands) | ≥ 90 Days Past Due and Accruing | Non- accrual | Total ≥ 90 Days | Total Past Due | Current | Total |
| Real estate - commercial mortgage | \$14,399 | \$3,677 | \$800 | \$44,437 | \$45,237 | \$63,313 | \$5,133,842 | \$5,197,155 |
| Commercial - secured | 4,839 | 958 | 610 | 28,747 | 29,357 | 35,154 | 3,529,460 | 3,564,614 |
| Commercial - unsecured | 395 | 65 | 9 | 1,022 | 1,031 | 1,491 | 159,462 | 160,953 |
| Total commercial - industrial, financial and agricultural | 5,234 | 1,023 | 619 | 29,769 | 30,388 | 36,645 | 3,688,922 | 3,725,567 |
| Real estate - home equity | 8,048 | 2,883 | 4,257 | 10,483 | 14,740 | 25,671 | 1,711,017 | 1,736,688 |
| Real estate - residential mortgage | 18,789 | 8,145 | 8,952 | 20,043 | 28,995 | 55,929 | 1,321,139 | 1,377,068 |

Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

| | | | | | | | | |
|---------------------------------------|----------|----------|----------|-----------|-----------|-----------|--------------|--------------|
| Construction - commercial residential | 160 | — | — | 13,463 | 13,463 | 13,623 | 190,047 | 203,670 |
| Construction - commercial | — | — | — | 2,604 | 2,604 | 2,604 | 424,815 | 427,419 |
| Construction - other | — | — | 51 | 281 | 332 | 332 | 59,180 | 59,512 |
| Total real estate - construction | 160 | — | 51 | 16,348 | 16,399 | 16,559 | 674,042 | 690,601 |
| Consumer - direct | 2,034 | 857 | 2,414 | — | 2,414 | 5,305 | 104,018 | 109,323 |
| Consumer - indirect | 2,156 | 418 | 176 | — | 176 | 2,750 | 153,358 | 156,108 |
| Total consumer | 4,190 | 1,275 | 2,590 | — | 2,590 | 8,055 | 257,376 | 265,431 |
| Leasing and other and overdrafts | 357 | 166 | 133 | — | 133 | 656 | 118,550 | 119,206 |
| Total | \$51,177 | \$17,169 | \$17,402 | \$121,080 | \$138,482 | \$206,828 | \$12,904,888 | \$13,111,716 |

NOTE 6 – Mortgage Servicing Rights

The following table summarizes the changes in mortgage servicing rights ("MSRs"), which are included in other assets on the consolidated balance sheets:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|------------------------------------|----------|-----------------------------------|----------|
| | 2015 | 2014 | 2015 | 2014 |
| | (in thousands) | | | |
| Amortized cost: | | | | |
| Balance at beginning of period | \$41,598 | \$42,586 | \$42,148 | \$42,452 |
| Originations of mortgage servicing rights | 1,463 | 1,456 | 4,976 | 3,807 |
| Amortization | (1,829) | (1,664) | (5,892) | (3,881) |
| Balance at end of period | \$41,232 | \$42,378 | \$41,232 | \$42,378 |

MSRs represent the economic value of existing contractual rights to service mortgage loans that have been sold.

Accordingly, actual and expected prepayments of the underlying mortgage loans can impact the value of MSRs. The Corporation accounts for MSRs at the lower of amortized cost or fair value.

The fair value of MSRs is estimated by discounting the estimated cash flows from servicing income, net of expense, over the expected life of the underlying loans at a discount rate commensurate with the risk associated with these assets. Expected life is based on the contractual terms of the loans, as adjusted for prepayment projections. No valuation allowance was necessary as of September 30, 2015 or 2014. As of September 30, 2015, the estimated fair value of MSRs was \$43.8 million, which exceeded their book value.

NOTE 7 – Stock-Based Compensation

The Corporation grants equity awards to employees, consisting of stock options, restricted stock, RSUs and PSUs under its Amended and Restated Equity and Cash Incentive Compensation Plan ("Employee Equity Plan"). In addition, employees may purchase stock under the Corporation's Employee Stock Purchase Plan. The fair value of equity awards granted to employees is recognized as compensation expense over the period during which employees are required to provide service in exchange for such awards. Compensation expense for PSUs is also recognized over the period during which employees are required to provide service in exchange for such awards, however, compensation expense may vary based on the expectations for actual performance relative to defined performance measures.

The Corporation also grants equity awards to non-employee members of its board of directors under the 2011 Directors' Equity Participation Plan ("Directors' Plan"). Under the Directors' Plan, the Corporation can grant equity awards to non-employee holding company and subsidiary bank directors in the form of stock options, restricted stock or common stock.

Equity awards issued under the Employee Equity Plan are generally granted annually and become fully vested over or after a three-year vesting period. The vesting period for non-performance based awards represents the period during which employees are required to provide service in exchange for such awards. Equity awards under the Directors' Plan generally vest immediately upon grant. Certain events, as defined in the Employee Equity Plan and the Directors' Plan, result in the acceleration of the vesting of equity awards.

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

| | Three months ended September 30 | Nine months ended September 30 |
|--|------------------------------------|-----------------------------------|
|--|------------------------------------|-----------------------------------|

Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

| | 2015 | 2014 | 2015 | 2014 |
|--|----------------|---------|----------|----------|
| | (in thousands) | | | |
| Stock-based compensation expense | \$1,533 | \$1,288 | \$4,371 | \$4,310 |
| Tax benefit | (489) | (358) | (1,403) | (1,067) |
| Stock-based compensation expense, net of tax | \$1,044 | \$930 | \$2,968 | \$3,243 |

Stock option fair values are estimated through the use of the Black-Scholes valuation methodology as of the date of grant. Stock options carry terms of up to ten years. Fair values for restricted stock, RSUs and a majority of PSUs are based on the trading price of the Corporation's stock on the date of grant and earn dividends during the vesting period, which are forfeitable if the awards

do not vest. The fair value of certain PSUs are estimated through the use of the Monte Carlo valuation methodology as of the date of grant.

As of September 30, 2015, the Employee Equity Plan had 11.6 million shares reserved for future grants through 2023, and the Directors' Plan had approximately 396,000 shares reserved for future grants through 2021.

NOTE 8 – Employee Benefit Plans

The Corporation maintains a defined benefit pension plan ("Pension Plan") for certain employees, which was curtailed effective January 1, 2008. Contributions to the Pension Plan are actuarially determined and funded annually, if required. Pension Plan assets are invested in: money markets; fixed income securities, including corporate bonds, U.S. Treasury securities and common trust funds; and equity securities, including common stocks and common stock mutual funds.

The net periodic benefit cost for the Corporation's Pension Plan consisted of the following components:

| | Three months ended | | Nine months ended | |
|--------------------------------|--------------------|--------|-------------------|----------|
| | September 30 | | September 30 | |
| | 2015 | 2014 | 2015 | 2014 |
| | (in thousands) | | | |
| Service cost (1) | \$145 | \$92 | \$435 | \$276 |
| Interest cost | 851 | 853 | 2,553 | 2,559 |
| Expected return on plan assets | (752) | (811) | (2,256) | (2,432) |
| Net amortization and deferral | 782 | 244 | 2,346 | 732 |
| Net periodic benefit cost | \$1,026 | \$378 | \$3,078 | \$1,135 |

(1) The Pension Plan service cost recorded for the nine months ended September 30, 2015 and 2014 was related to administrative costs associated with the plan and was not due to the accrual of additional participant benefits.

The Corporation currently provides medical and life insurance benefits under a postretirement benefits plan ("Postretirement Plan") to certain retired full-time employees who were employees of the Corporation prior to January 1, 1998.

Effective February 1, 2014, the Corporation amended the Postretirement Plan, making all active full-time employees ineligible for benefits under this plan. As a result of this amendment, the Corporation recorded a \$1.5 million gain during the nine months ended September 30, 2014, as a reduction to salaries and employee benefits on the consolidated statements of income. The gain resulted from the recognition of the remaining prior service cost prior to the amendment date as of December 31, 2013. In addition, this amendment resulted in a \$3.4 million decrease in the accumulated postretirement benefit obligation and a corresponding increase in unrecognized prior service cost credits. The net periodic cost (benefit) of the Corporation's Postretirement Plan consisted of the following components, excluding the \$1.5 million plan amendment gain in 2014:

| | Three months ended | | Nine months ended | |
|----------------------------|--------------------|---------|-------------------|---------|
| | September 30 | | September 30 | |
| | 2015 | 2014 | 2015 | 2014 |
| | (in thousands) | | | |
| Service cost (1) | \$— | \$— | \$— | \$15 |
| Interest cost | 52 | 48 | 156 | 157 |
| Net accretion and deferral | (65) | (84) | (195) | (263) |
| Net periodic benefit | \$(13) | \$(36) | \$(39) | \$(91) |

(1)

As a result of the plan amendment, additional participant benefits are not accrued under the Postretirement Plan after February 1, 2014.

The Corporation recognizes the funded status of its Pension Plan and Postretirement Plan on the consolidated balance sheets and recognizes the change in that funded status through other comprehensive income.

NOTE 9 – Derivative Financial Instruments

The Corporation manages its exposure to certain interest rate and foreign currency risks through the use of derivatives. None of the Corporation's outstanding derivative contracts are designated as hedges, and none are entered into for speculative purposes. Derivative instruments are carried at fair value, with changes in fair values recognized in earnings as components of non-interest income and non-interest expense on the consolidated statements of income. Derivative contracts create counterparty credit risk with both the Corporation's customers and with institutional derivative counterparties. The Corporation manages counterparty credit risk through its credit approval processes, monitoring procedures and obtaining adequate collateral, when the Corporation determines it is appropriate to do so and in accordance with counterparty contracts.

Mortgage Banking Derivatives

In connection with its mortgage banking activities, the Corporation enters into commitments to originate certain fixed rate residential mortgage loans for customers, also referred to as interest rate locks. In addition, the Corporation enters into forward commitments for the future sales or purchases of mortgage-backed securities to or from third-party counterparties to hedge the effect of changes in interest rates on the values of both the interest rate locks and mortgage loans held for sale. Forward sales commitments may also be in the form of commitments to sell individual mortgage loans at a fixed price at a future date. The amount necessary to settle each interest rate lock is based on the price that secondary market investors would pay for loans with similar characteristics, including interest rate and term, as of the date fair value is measured. Gross derivative assets and liabilities are recorded within other assets and other liabilities, respectively, on the consolidated balance sheets, and changes in fair values during the period are recorded within mortgage banking income on the consolidated statements of income.

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 within other assets and other liabilities on the consolidated balance sheets, with changes in fair value during the period recorded within other non-interest expense on the consolidated statements of income.

Foreign Exchange Contracts

The Corporation enters into foreign exchange contracts to accommodate the needs of its customers. Foreign exchange contracts are commitments to buy or sell foreign currency on a future date at a contractual price. The Corporation offsets its foreign exchange contract exposure with customers by entering into contracts with third-party correspondent financial institutions to mitigate its exposure to fluctuations in foreign currency exchange rates. The Corporation also holds certain amounts of foreign currency with international correspondent banks. The Corporation's policy limits the total net foreign currency open positions, which includes all outstanding contracts and foreign account balances, to \$500,000. Gross derivative assets and liabilities are recorded within other assets and other liabilities, respectively, on the consolidated balance sheets, with changes in fair values during the period recorded within other service charges and fees on the consolidated statements of income.

The following table presents a summary of the notional amounts and fair values of derivative financial instruments:

| | September 30, 2015 | | December 31, 2014 | |
|---|--------------------|------------------------------|-------------------|------------------------------|
| | Notional Amount | Asset (Liability) Fair Value | Notional Amount | Asset (Liability) Fair Value |
| | (in thousands) | | | |
| Interest Rate Locks with Customers | | | | |
| Positive fair values | \$121,546 | \$2,263 | \$89,655 | \$1,391 |
| Negative fair values | 172 | (2 |) 301 | (6 |
| Net interest rate locks with customers | | 2,261 | | 1,385 |
| Forward Commitments | | | | |
| Positive fair values | 110 | — | — | — |
| Negative fair values | 117,389 | (1,502 |) 93,802 | (1,164 |
| Net forward commitments | | (1,502 |) | (1,164 |
| Interest Rate Swaps with Customers | | | | |
| Positive fair values | 681,647 | 37,436 | 468,080 | 19,716 |
| Negative fair values | 8,000 | (87 |) 25,418 | (198 |
| Net interest rate swaps with customers | | 37,349 | | 19,518 |
| Interest Rate Swaps with Dealer Counterparties | | | | |
| Positive fair values | 8,000 | 87 | 25,418 | 198 |
| Negative fair values | 681,647 | (37,436 |) 468,080 | (19,716 |
| Net interest rate swaps with dealer counterparties | | (37,349 |) | (19,518 |
| Foreign Exchange Contracts with Customers | | | | |
| Positive fair values | 7,183 | 260 | 11,616 | 810 |
| Negative fair values | 7,091 | (269 |) 5,250 | (441 |
| Net foreign exchange contracts with customers | | (9 |) | 369 |
| Foreign Exchange Contracts with Correspondent Banks | | | | |
| Positive fair values | 10,308 | 614 | 5,287 | 446 |
| Negative fair values | 8,630 | (334 |) 13,572 | (876 |
| Net foreign exchange contracts with correspondent banks | | 280 | | (430 |
| Net derivative fair value asset | | \$1,030 | | \$160 |

The following table presents a summary of the fair value gains and losses on derivative financial instruments:

| | Three months ended | | Nine months ended | |
|---|--------------------|----------|-------------------|-----------|
| | September 30 | | September 30 | |
| | 2015 | 2014 | 2015 | 2014 |
| | (in thousands) | | | |
| Interest rate locks with customers | \$1,041 | \$(1,092 |) \$876 | \$500 |
| Forward commitments | (3,183 |) 1,374 | (338 |) (1,627 |
| Interest rate swaps with customers | 18,266 | (40 |) 17,831 | 10,300 |
| Interest rate swaps with dealer counterparties | (18,266 |) 40 | (17,831 |) (10,300 |
| Foreign exchange contracts with customers | (197 |) 557 | (378 |) 854 |
| Foreign exchange contracts with correspondent banks | 323 | (527 |) 710 | (893 |
| Net fair value gains (losses) on derivative financial instruments | \$(2,016 |) \$312 | \$870 | \$(1,166 |

NOTE 10 – Fair Value Option

U.S. GAAP permits entities to measure many financial instruments and certain other items at fair value and requires certain disclosures for amounts for which the fair value option is applied. The Corporation has elected to measure mortgage loans held for sale at fair value to more accurately reflect the financial results of its mortgage banking activities in its consolidated financial statements. Derivative financial instruments related to these activities are also recorded at fair value, as noted within Note 9, "Derivative Financial Instruments." The Corporation determines fair value for its mortgage loans held for sale based on the price that secondary market investors would pay for loans with similar characteristics, including interest rate and term, as of the date fair value is measured. Changes in fair values during the period are recorded as components of mortgage banking income on the consolidated statements of income. Interest income earned on mortgage loans held for sale is classified within interest income on the consolidated statements of income.

The following table presents a summary of the Corporation's mortgage loans held for sale:

| | September 30, 2015 | December 31, 2014 |
|------------|-----------------------|----------------------|
| | (in thousands) | |
| Cost | \$26,186 | \$17,080 |
| Fair value | 26,937 | 17,522 |

During the three months ended September 30, 2015, the Corporation recorded gains related to changes in fair values of mortgage loans held for sale of \$531,000 compared to losses of \$472,000 for the three months ended September 30, 2014. For the nine months ended September 30, 2015 and 2014, the Corporation recorded gains related to changes in fair values of mortgage loans held for sale of \$309,000 and \$343,000, respectively.

NOTE 11 – Balance Sheet Offsetting

Certain financial assets and liabilities may be eligible for offset on the consolidated balance sheets because they are subject to master netting arrangements or similar agreements. The Corporation elects to not offset assets and liabilities subject to such arrangements on the consolidated financial statements.

The Corporation is a party to interest rate swap transactions with financial institution counterparties and customers, disclosed in detail within Note 9, "Derivative Financial Instruments." Under these agreements, the Corporation has the right to net-settle multiple contracts with the same counterparty in the event of default on, or termination of, any one contract. Cash collateral is posted by the party with a net liability position in accordance with contract thresholds and can be used to settle the fair value of the interest rate swap agreements in the event of default.

The Corporation is also a party to foreign currency exchange contracts with financial institution counterparties, under which the Corporation has the right to net-settle multiple contracts with the same counterparty in the event of default on, or termination of, any one contract. As with interest rate swap contracts, cash collateral is posted by the party with a net liability position in accordance with contract thresholds and can be used to settle the fair value of the foreign currency exchange contracts in the event of default. For additional details, see Note 9, "Derivative Financial Instruments."

The Corporation also enters into agreements with customers in which it sells securities subject to an obligation to repurchase the same or similar securities, referred to as repurchase agreements. Under these agreements, the Corporation may transfer legal control over the assets but still maintain effective control through agreements that both entitle and obligate the Corporation to repurchase the assets. Therefore, repurchase agreements are reported as secured borrowings, classified within short-term borrowings on the consolidated balance sheets, while the securities underlying the repurchase agreements remain classified with investment securities on the consolidated balance sheets. The Corporation has no intention of setting off these amounts. Therefore, these repurchase agreements are not eligible for offset.

The following table presents the Corporation's financial instruments that are eligible for offset, and the effects of offsetting, on the consolidated balance sheets:

| | Gross Amounts Recognized on the Consolidated Balance Sheets (in thousands) | Gross Amounts Not Offset | | | Net Amount |
|--|--|---|------------------------|---------|---------------|
| | | on the Consolidated Balance Sheets Financial Instruments (1) | Cash Collateral (2) | | |
| September 30, 2015 | | | | | |
| Interest rate swap derivative assets | \$37,523 | \$(87) |) \$— | | \$37,436 |
| Foreign exchange derivative assets with correspondent banks | 614 | (334) |) — | | 280 |
| Total | \$38,137 | \$(421) |) \$— | | \$37,716 |
| Interest rate swap derivative liabilities | \$37,523 | \$(87) |) \$(37,436) |) \$— | |
| Foreign exchange derivative liabilities with correspondent banks | 334 | (334) |) 310 | | 310 |
| Total | \$37,857 | \$(421) |) \$(37,126) |) \$310 | |
| December 31, 2014 | | | | | |
| Interest rate swap derivative assets | \$19,914 | \$(206) |) \$— | | \$19,708 |
| Foreign exchange derivative assets with correspondent banks | 446 | (446) |) — | | — |
| Total | \$20,360 | \$(652) |) \$— | | \$19,708 |
| Interest rate swap derivative liabilities | \$19,914 | \$(206) |) \$(19,210) |) \$498 | |
| Foreign exchange derivative liabilities with correspondent banks | 876 | (446) |) (310) |) 120 | |
| Total | \$20,790 | \$(652) |) \$(19,520) |) \$618 | |

For interest rate swap and foreign exchange derivative assets, amounts represent any derivative liability fair values that could be offset in the event of counterparty or customer default. For interest rate swap and foreign exchange derivative liabilities, amounts represent any derivative asset fair values that could be offset in the event of counterparty or customer default.

(1) Amounts represent cash collateral posted on interest rate swap transactions with financial institution counterparties.
(2) Interest rate swaps with customers are collateralized by the underlying loans to those borrowers.

NOTE 12 – Commitments and Contingencies

Commitments

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.

Those financial instruments include commitments to extend credit and letters of credit, which involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amounts recognized on the Corporation's consolidated balance sheets. Exposure to credit loss in the event of nonperformance by the other party to the financial

instrument for commitments to extend credit and letters of credit is represented by the outstanding amount of those instruments.

The outstanding amounts of commitments to extend credit and letters of credit as of the dates indicated were as follows:

| | September 30, 2015 | December 31, 2014 |
|------------------------------|-----------------------|----------------------|
| | (in thousands) | |
| Commitments to extend credit | \$5,635,629 | \$4,389,064 |
| Standby letters of credit | 390,501 | 382,465 |
| Commercial letters of credit | 36,365 | 32,304 |

The Corporation records a reserve for unfunded lending commitments, which represents management's estimate of losses associated with unused commitments to extend credit. See Note 5, "Loans and Allowance for Credit Losses," for additional details.

Residential Lending

Residential mortgages originated and sold by the Corporation consist primarily of conforming, prime loans sold to government sponsored agencies, such as the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"). The Corporation also sells a portion of prime loans to non-government sponsored agency investors.

The Corporation provides customary representations and warranties to investors that specify, among other things, that the loans have been underwritten to the standards established by the investor. The Corporation may be required to repurchase a loan, or reimburse the investor for a credit loss incurred on a loan, if it is determined that the representations and warranties have not been met. Such repurchases or reimbursements generally result from an underwriting or documentation deficiency. As of September 30, 2015 and December 31, 2014, total outstanding repurchase requests were \$851,000 and \$543,000, respectively.

From 2000 to 2011, the Corporation sold loans to the Federal Home Loan Bank of Pittsburgh under its Mortgage Partnership Finance Program ("MPF Program"). No loans were sold under this program during the nine months ended September 30, 2015 or 2014. The Corporation provided a "credit enhancement" for residential mortgage loans sold under the MPF Program whereby it would assume credit losses in excess of a defined "First Loss Account," or "FLA" balance, up to specified amounts. The FLA is funded by the Federal Home Loan Bank of Pittsburgh based on a percentage of the outstanding principal balance of loans sold. As of September 30, 2015, the unpaid principal balance of loans sold under the MPF Program was approximately \$132 million. As of September 30, 2015 and December 31, 2014, the reserve for estimated credit losses related to loans sold under the MPF Program was \$1.8 million and \$2.3 million, respectively. Required reserves are calculated based on delinquency status and estimated loss rates established through the Corporation's existing allowance for credit losses methodology for residential mortgage loans.

As of September 30, 2015 and December 31, 2014, the total reserve for losses on residential mortgage loans sold was \$2.5 million and \$3.2 million, respectively, including both reserves for credit losses under the MPF Program and reserves for representation and warranty exposures. Management believes that the reserves recorded as of September 30, 2015 are adequate. However, declines in collateral values, the identification of additional loans to be repurchased, or a deterioration in the credit quality of loans sold under the MPF Program could necessitate additional reserves, established through charges to earnings, in the future.

Other Contingencies

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. Refer also to Part II. Other Information, Item 1. Legal Proceedings.

NOTE 13 – 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 using 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 on both a recurring and nonrecurring basis into the above three levels.

The following tables present summaries of the Corporation's assets and liabilities measured at fair value on a recurring basis and reported on the consolidated balance sheets:

| | September 30, 2015 | | | Total |
|---|---------------------------|-------------|-----------|-------------|
| | Level 1 (in thousands) | Level 2 | Level 3 | |
| Mortgage loans held for sale | \$— | \$26,937 | \$— | \$26,937 |
| Available for sale investment securities: | | | | |
| Equity securities | 23,532 | — | — | 23,532 |
| U.S. Government sponsored agency securities | — | 48,551 | — | 48,551 |
| State and municipal securities | — | 240,236 | — | 240,236 |
| Corporate debt securities | — | 96,761 | 3,180 | 99,941 |
| Collateralized mortgage obligations | — | 874,299 | — | 874,299 |
| Mortgage-backed securities | — | 1,051,905 | — | 1,051,905 |
| Auction rate securities | — | — | 97,873 | 97,873 |
| Total available for sale investments | 23,532 | 2,311,752 | 101,053 | 2,436,337 |
| Other assets | 16,253 | 39,787 | — | 56,040 |
| Total assets | \$39,785 | \$2,378,476 | \$101,053 | \$2,519,314 |
| Other liabilities | \$15,982 | \$39,027 | \$— | \$55,009 |
| | December 31, 2014 | | | Total |
| | Level 1 (in thousands) | Level 2 | Level 3 | |
| Mortgage loans held for sale | \$— | \$17,522 | \$— | \$17,522 |
| Available for sale investment securities: | | | | |
| Equity securities | 47,623 | — | — | 47,623 |
| U.S. Government securities | — | 200 | — | 200 |
| U.S. Government sponsored agency securities | — | 214 | — | 214 |
| State and municipal securities | — | 245,215 | — | 245,215 |
| Corporate debt securities | — | 90,126 | 7,908 | 98,034 |
| Collateralized mortgage obligations | — | 902,313 | — | 902,313 |
| Mortgage-backed securities | — | 928,831 | — | 928,831 |
| Auction rate securities | — | — | 100,941 | 100,941 |
| Total available for sale investments | 47,623 | 2,166,899 | 108,849 | 2,323,371 |
| Other assets | 17,682 | 21,305 | — | 38,987 |
| Total assets | \$65,305 | \$2,205,726 | \$108,849 | \$2,379,880 |
| Other liabilities | \$17,737 | \$21,084 | \$— | \$38,821 |

The valuation techniques used to measure fair value for the items in the preceding tables are as follows:

Mortgage loans held for sale – This category consists of mortgage loans held for sale that the Corporation has elected to measure at fair value. Fair values as of September 30, 2015 and December 31, 2014 were measured based on the price that secondary market investors were offering for loans with similar characteristics. See Note 10, "Fair Value Option" for details related to the Corporation's election to measure assets and liabilities at fair value.

Available for sale investment securities – Included within this asset category are both equity and debt securities. Level 2 available for sale debt securities are valued by a third-party pricing service commonly used in the banking industry. The pricing service uses pricing models that vary based on asset class and incorporate available market information, including quoted prices of investment securities with similar characteristics. Because many fixed income securities do

not trade on a daily basis, pricing models use available information, as applicable, through processes such as benchmark yield curves, benchmarking of like securities, sector groupings, and matrix pricing.

Standard market inputs include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data, including market research publications. For certain security types, additional inputs may be used, or some of the standard market inputs may not be applicable.

Management tests the values provided by the pricing service by obtaining securities prices from an alternative third-party source and comparing the results. This test is done for approximately 80% of the securities valued by the pricing service. Generally, differences by security in excess of 5% are researched to reconcile the difference.

Equity securities – Equity securities consist of common stocks of financial institutions (\$22.4 million at September 30, 2015 and \$41.8 million at December 31, 2014) and other equity investments (\$1.1 million at September 30, 2015 and \$5.8 million at December 31, 2014). These Level 1 investments are measured at fair value based on quoted prices for identical securities in active markets.

U.S. Government securities/U.S. Government sponsored agency securities/State and municipal securities/Collateralized mortgage obligations/Mortgage-backed securities – These debt securities are classified as Level 2 investments. Fair values are determined by a third-party pricing service, as detailed above.

Corporate debt securities – This category consists of subordinated debt issued by financial institutions (\$53.6 million at September 30, 2015 and \$50.0 million at December 31, 2014), single-issuer trust preferred securities issued by financial institutions (\$41.8 million at September 30, 2015 and \$42.0 million at December 31, 2014), pooled trust preferred securities issued by financial institutions (\$530,000 at September 30, 2015 and \$4.1 million at December 31, 2014) and other corporate debt issued by non-financial institutions (\$4.0 million at September 30, 2015 and \$1.9 million at December 31, 2014).

Level 2 investments include the Corporation's holdings of subordinated debt, other corporate debt issued by non-financial institutions and \$39.2 million and \$38.2 million of single-issuer trust preferred securities held at September 30, 2015 and December 31, 2014, respectively. The fair values for these corporate debt securities are determined by a third-party pricing service, as detailed above.

Level 3 investments include the Corporation's investments in pooled trust preferred securities (\$530,000 at September 30, 2015 and \$4.1 million at December 31, 2014) and certain single-issuer trust preferred securities (\$2.7 million at September 30, 2015 and \$3.8 million at December 31, 2014). The fair values of these securities were determined 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. The Corporation's third-party pricing service cannot derive fair values for these securities primarily due to inactive markets for similar investments. Level 3 values are tested by management primarily through trend analysis, by comparing current values to those reported at the end of the preceding calendar quarter, and determining if they are reasonable based on price and spread movements for this asset class.

Auction rate securities – Due to their illiquidity, ARCs are classified as Level 3 investments and are valued through the use of an expected cash flows model prepared by a third-party valuation expert. The assumptions used in preparing the expected cash flows model include estimates for coupon rates, time to maturity and market rates of return. The most significant unobservable input to the expected cash flows model is an assumed return to market liquidity sometime within the next five years. If the assumed return to market liquidity was lengthened beyond the next five years, this would result in a decrease in the fair value of these ARCs. The Corporation believes that the trusts underlying the ARCs will self-liquidate as student loans are repaid. Level 3 values are tested by management through the performance of a trend analysis of the market price and discount rate. Changes in the price and discount rates are compared to changes in market data, including bond ratings, parity ratios, balances and delinquency levels.

Other assets – Included within this category are the following:

Level 1 assets include mutual funds that are held in trust for employee deferred compensation plans (\$15.4 million at September 30, 2015 and \$16.4 million at December 31, 2014) and the fair value of foreign currency exchange contracts (\$874,000 at September 30, 2015 and \$1.3 million at December 31, 2014). The mutual funds and foreign

exchange prices used to measure these items at fair value are based on quoted prices for identical instruments in active markets.

Level 2 assets include the fair value of mortgage banking derivatives in the form of interest rate locks and forward commitments with secondary market investors (\$2.3 million at September 30, 2015 and \$1.4 million at December 31, 2014) and the fair value of interest rate swaps (\$37.5 million at September 30, 2015 and \$19.9

million at December 31, 2014). The fair values of the Corporation's interest rate locks, forward commitments and interest rate swaps represent the amounts that would be required to settle the derivative financial instruments at the balance sheet date. See Note 9, "Derivative Financial Instruments," for additional information.

Other liabilities – Included within this category are the following:

Level 1 liabilities include employee deferred compensation liabilities which represent amounts due to employees under deferred compensation plans (\$15.4 million at September 30, 2015 and \$16.4 million at December 31, 2014) and the fair value of foreign currency exchange contracts (\$603,000 at September 30, 2015 and \$1.3 million at December 31, 2014). The fair value of these liabilities are determined in the same manner as the related assets, as described under the heading "Other assets" above.

Level 2 liabilities include the fair value of mortgage banking derivatives in the form of interest rate locks and forward commitments with secondary market investors (\$1.5 million at September 30, 2015 and \$1.2 million at December 31, 2014) and the fair value of interest rate swaps (\$37.5 million at September 30, 2015 and \$19.9 million at December 31, 2014). The fair values of these liabilities are determined in the same manner as the related assets, as described under the heading "Other assets" above.

The following table presents the changes in the Corporation's available for sale investment securities measured at fair value on a recurring basis using unobservable inputs (Level 3):

| | Three months ended September 30, 2015 | | |
|---|---------------------------------------|--|-----------|
| | Pooled Trust Preferred Securities | Single-issuer Trust Preferred Securities | ARCs |
| | (in thousands) | | |
| Balance at June 30, 2015 | \$530 | \$3,820 | \$98,606 |
| Unrealized adjustment to fair value (1) | — | (203) | (890) |
| Settlements - calls | — | (970) | — |
| Discount accretion (2) | — | 3 | 157 |
| Balance at September 30, 2015 | \$530 | \$2,650 | \$97,873 |
| | Three months ended September 30, 2014 | | |
| Balance at June 30, 2014 | \$4,275 | \$3,820 | \$146,931 |
| Realized adjustment to fair value (3) | (18) | — | — |
| Unrealized adjustment to fair value (1) | 230 | 47 | 1,280 |
| Discount accretion (2) | — | 2 | 262 |
| Balance at September 30, 2014 | \$4,487 | \$3,869 | \$148,473 |
| | Nine months ended September 30, 2015 | | |
| | Pooled Trust Preferred Securities | Single-issuer Trust Preferred Securities | ARCs |
| | (in thousands) | | |
| Balance at December 31, 2014 | \$4,088 | \$3,820 | \$100,941 |
| Sales | (3,633) | — | — |
| Unrealized adjustment to fair value (1) | 190 | (207) | (978) |
| Settlements - calls | (117) | (970) | (2,446) |
| Discount accretion (2) | 2 | 7 | 356 |
| Balance at September 30, 2015 | \$530 | \$2,650 | \$97,873 |
| | Nine months ended September 30, 2014 | | |
| Balance at December 31, 2013 | \$5,306 | \$3,781 | \$159,274 |
| Sales | (1,394) | — | (11,912) |
| Realized adjustment to fair value (3) | (18) | — | — |
| Unrealized adjustment to fair value (1) | 789 | 83 | 1,528 |
| Settlements - calls | (200) | — | (1,081) |
| Discount accretion (2) | 4 | 5 | 664 |
| Balance at September 30, 2014 | \$4,487 | \$3,869 | \$148,473 |

(1) Pooled trust preferred securities, single-issuer trust preferred securities and ARCs are classified as available for sale investment securities; as such, the unrealized adjustment to fair value was recorded as an unrealized holding gain (loss) and included as a component of available for sale investment securities on the consolidated balance sheets.

(2) Included as a component of net interest income on the consolidated statements of income.

Realized adjustments to fair value represent credit related other-than-temporary impairment charges and gains on
(3) sales of investment securities, both included as components of investment securities gains on the consolidated
statements of income.

Certain financial assets are not measured at fair value on an ongoing basis, but are subject to fair value measurement in certain circumstances, such as upon their acquisition or when there is evidence of impairment. The following table presents the Corporation's financial assets measured at fair value on a nonrecurring basis and reported on the Corporation's consolidated balance sheets:

| | September 30, 2015 | | | Total |
|------------------------|---------------------------|---------|-----------|-----------|
| | Level 1 (in thousands) | Level 2 | Level 3 | |
| Net loans | \$— | \$— | \$145,518 | \$145,518 |
| Other financial assets | — | — | 51,794 | 51,794 |
| Total assets | \$— | \$— | \$197,312 | \$197,312 |
| | December 31, 2014 | | | Total |
| | Level 1 (in thousands) | Level 2 | Level 3 | |
| Net loans | \$— | \$— | \$127,834 | \$127,834 |
| Other financial assets | — | — | 54,170 | 54,170 |
| Total assets | \$— | \$— | \$182,004 | \$182,004 |

The valuation techniques used to measure fair value for the items in the table above are as follows:

Net loans – This category consists of loans that were evaluated for impairment under FASB ASC Section 310-10-35 and have been classified as Level 3 assets. The amount shown is the balance of impaired loans, net of the related allowance for loan losses. See Note 5, "Loans and Allowance for Credit Losses," for additional details.

Other financial assets – This category includes OREO (\$10.6 million at September 30, 2015 and \$12.0 million at December 31, 2014) and MSR (\$41.2 million at September 30, 2015 and \$42.1 million at December 31, 2014), both classified as Level 3 assets.

Fair values for OREO were based on estimated selling prices less estimated selling costs for similar assets in active markets.

MSRs are initially recorded at fair value upon the sale of residential mortgage loans to secondary market investors. MSRs are amortized as a reduction to servicing income over the estimated lives of the underlying loans. MSRs are stratified and evaluated for impairment by comparing each stratum's carrying amount to its estimated fair value. Fair values are determined at the end of each quarter through a discounted cash flows valuation performed by a third-party valuation expert. Significant inputs to the valuation included expected net servicing income, the discount rate and the expected life of the underlying loans. Expected life is based on the contractual terms of the loans, as adjusted for prepayment projections. The weighted average annual constant prepayment rate and the weighted average discount rate used in the September 30, 2015 valuation were 11.6% and 9.6%, respectively. Management tests the reasonableness of the significant inputs to the third-party valuation in comparison to market data.

As required by FASB ASC Section 825-10-50, the following table details the book values and estimated fair values of the Corporation's financial instruments as of September 30, 2015 and December 31, 2014. In addition, a general description of the methods and assumptions used to estimate such fair values is also provided.

| | September 30, 2015 | | December 31, 2014 | |
|---|--------------------|----------------------|-------------------|----------------------|
| | Book Value | Estimated Fair Value | Book Value | Estimated Fair Value |
| | (in thousands) | | | |
| FINANCIAL ASSETS | | | | |
| Cash and due from banks | \$93,803 | \$93,803 | \$105,702 | \$105,702 |
| Interest-bearing deposits with other banks | 510,943 | 510,943 | 358,130 | 358,130 |
| Federal Reserve Bank and Federal Home Loan Bank stock | 68,977 | 68,977 | 64,953 | 64,953 |
| Loans held for sale (1) | 26,937 | 26,937 | 17,522 | 17,522 |
| Available for sale investment securities (1) | 2,436,337 | 2,436,337 | 2,323,371 | 2,323,371 |
| Loans, net of unearned income (1) | 13,536,361 | 13,428,016 | 13,111,716 | 13,030,543 |
| Accrued interest receivable | 42,846 | 42,846 | 41,818 | 41,818 |
| Other financial assets (1) | 174,835 | 174,835 | 169,764 | 169,764 |
| FINANCIAL LIABILITIES | | | | |
| Demand and savings deposits | \$11,148,667 | \$11,148,667 | \$10,296,055 | \$10,296,055 |
| Time deposits | 2,935,727 | 2,944,618 | 3,071,451 | 3,069,883 |
| Short-term borrowings | 431,631 | 431,631 | 329,719 | 329,719 |
| Accrued interest payable | 14,727 | 14,727 | 18,045 | 18,045 |
| Other financial liabilities (1) | 192,281 | 192,281 | 172,786 | 172,786 |
| Federal Home Loan Bank advances and long-term debt | 979,433 | 1,002,761 | 1,139,413 | 1,142,980 |

These financial instruments, or certain financial instruments within these categories, are measured at fair value on (1) the Corporation's consolidated balance sheets. Descriptions of the fair value determinations for these financial instruments are disclosed above.

Fair values of financial instruments are significantly affected by the assumptions used, principally the timing of future cash flows and discount rates. Because assumptions are inherently subjective in nature, the estimated fair values cannot be substantiated by comparison to independent market quotes and, in many cases, the estimated fair values could not necessarily be realized in an immediate sale or settlement of the instrument. The aggregate fair value amounts presented do not necessarily represent management's estimate of the underlying value of the Corporation. For short-term financial instruments, defined as those with remaining maturities of 90 days or less, and excluding those recorded at fair value on the Corporation's consolidated balance sheets, book value was considered to be a reasonable estimate of fair value.

The following instruments are predominantly short-term:

| | |
|--|-----------------------------|
| Assets | Liabilities |
| Cash and due from banks | Demand and savings deposits |
| Interest bearing deposits with other banks | Short-term borrowings |
| Accrued interest receivable | Accrued interest payable |

Federal Reserve Bank and Federal Home Loan Bank stock represent restricted investments and are carried at cost on the consolidated balance sheets. 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"). Fair values for loans and time deposits were estimated by discounting future cash flows using the current rates at which similar loans would be made to borrowers and similar deposits would be issued to customers for the same remaining maturities. Fair values estimated in this manner do not fully incorporate an exit price approach to fair value, as defined in FASB ASC Topic 820.

The fair values of FHLB advances and long-term debt were estimated by discounting the remaining contractual cash flows using a rate at which the Corporation could issue debt with similar remaining maturities as of the balance sheet date. These borrowings would be categorized within Level 2 liabilities under FASB ASC Topic 820.

NOTE 14 – Common Stock Repurchase Plans

In November 2014, the Corporation entered into an accelerated share repurchase agreement ("ASR") with a third party to repurchase \$100.0 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. Through September 30, 2015, approximately 4.0 million shares had been repurchased under this program for a total cost of \$50.0 million, or \$12.57 per share, completing this program.

NOTE 15 – Long-Term Debt

In June 2015, the Corporation issued \$150.0 million of ten-year subordinated notes, which mature on November 15, 2024 and carry a fixed rate of 4.50% and an effective rate of approximately 4.69% as a result of discounts and issuance costs. Interest is paid semi-annually in May and November.

The proceeds from the issuance of the subordinated notes were used to redeem \$150.0 million of trust preferred securities in July 2015. The redeemed securities carried a fixed interest rate of 6.29% and an effective rate of 6.52%, and had a scheduled maturity of February 1, 2036. As a result of this transaction, the Corporation recorded a \$5.6 million loss on redemption, included as a component of non-interest expense, in July 2015. The loss on redemption included \$2.5 million, net of \$1.3 million tax effect, that had been recorded as an other comprehensive loss at the time the trust preferred securities were issued related to a cash flow hedge. See Note 3, "Accumulated Other Comprehensive Income," for additional details.

NOTE 16 – Subsequent Event

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. Repurchased shares will be added to treasury stock, at cost. As permitted by securities laws and other legal requirements and subject to market conditions and other factors, purchases may be made from time to time in open market or privately negotiated transactions, including, without limitation, through accelerated share repurchase transactions. The share repurchase program may be discontinued at any time.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations ("Management's Discussion") relates to Fulton Financial Corporation (the "Corporation"), a financial holding company registered under the Bank Holding Company Act of 1956 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 notes 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 2015" 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 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 subsidiary banks;
- 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 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 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 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 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.

RESULTS OF OPERATIONS

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, 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:

| | As of or for the Three months ended September 30 | | As of or for the Nine months ended September 30 | | |
|---|--|----------|---|-----------|---|
| | 2015 | 2014 | 2015 | 2014 | |
| Income before income taxes (in thousands) | \$44,579 | \$51,968 | \$146,974 | \$161,081 | |
| Net income (in thousands) | \$34,251 | \$38,566 | \$110,967 | \$119,945 | |
| Diluted net income per share | \$0.20 | \$0.21 | \$0.63 | \$0.64 | |
| Return on average assets | 0.78 | % 0.90 | % 0.86 | % 0.95 | % |
| Return on average equity | 6.72 | % 7.32 | % 7.33 | % 7.72 | % |
| Net interest margin (1) | 3.18 | % 3.39 | % 3.22 | % 3.42 | % |
| Non-performing assets to total assets | 0.87 | % 0.91 | % 0.87 | % 0.91 | % |
| Annualized net charge-offs to average loans | 0.03 | % 0.18 | % 0.16 | % 0.24 | % |

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

Income before income taxes for the three months and nine months ended September 30, 2015 decreased \$7.4 million, or 14.2%, and \$14.1 million, or 8.8%, respectively, compared to the same periods of 2014. The Corporation's results for the three and nine months ended September 30, 2015 in comparison to the same periods in 2014 were most significantly impacted by declines in net interest income and increases in non-interest expense, partially offset by decreases in the provision for credit losses and higher non-interest income.

Following is a summary of financial highlights for the three and nine months ended September 30, 2015:

Net Interest Income and Net Interest Margin - For the three and nine months ended September 30, 2015, net interest income decreased \$3.7 million, or 2.8%, and \$14.6 million, or 3.8%, respectively, in comparison to the same periods in 2014.

For both the three and nine month periods, the decrease in net interest income resulted from the impact of lower net interest margins, partially offset by the impact of growth in interest-earning assets. In the third quarter of 2015, net interest margin decreased 21 basis points in comparison to the same period in 2014, mainly due to a 22 basis point

decrease in yields on interest-earning assets. For the first nine months of 2015, the net interest margin decreased 20 basis points in comparison to the same period in 2014 as yields on interest-earning assets decreased 18 basis points and the cost of interest-bearing liabilities increased 5 basis points.

Average interest-earning assets increased \$553.4 million, or 3.5%, in the third quarter of 2015 in comparison to the same period of 2014, mainly due to a \$447.1 million, or 3.5%, increase in average loans and a \$183.9 million, or 62.7%, increase in other interest-earning assets, partially offset by a \$74.5 million, or 3.0%, decrease in average investment securities.

Average interest-earning assets increased \$395.9 million, or 2.5%, in the first nine months of 2015 in comparison to the same period of 2014, primarily as a result of a \$392.8 million, or 3.1%, increase in average loans and a \$199.7 million, or 75.7%, increase in other interest-earning assets, partially offset by a \$199.7 million, or 7.9%, decrease in average investment securities.

Average interest-bearing liabilities increased \$127.3 million, or 1.1%, in the third quarter of 2015 in comparison to the third quarter of 2014, primarily due to a \$469.2 million, or 4.9%, increase in interest-bearing deposits, partially offset by a \$342.7 million, or 51.4%, decrease in short-term borrowings. Additional funding to support the increase in interest-earning assets was provided by a \$390.1 million, or 11.1%, increase in noninterest-bearing deposits.

During the first nine months of 2015, average interest-bearing liabilities decreased \$37.6 million, or 0.3%, in comparison to the first nine months of 2014 primarily due to a \$634.7 million, or 65.2%, decrease in average short-term borrowings, offset by a \$473.3 million, or 5.1%, increase in interest-bearing deposits and a \$123.7 million, or 13.4%, increase in FHLB advances and long-term debt. Additional funding to support the increase in interest-earning assets was provided by a \$407.0 million, or 12.1%, increase in noninterest-bearing deposits.

Asset Quality - The Corporation recorded a \$1.0 million provision for credit losses during the three months ended September 30, 2015, compared to a \$3.5 million provision for the same period in 2014. During the nine months ended September 30, 2015, the Corporation recorded a \$500,000 negative provision for credit losses compared to a \$9.5 million provision for the same period in 2014.

Annualized net charge-offs to average loans outstanding were 0.03% for the third quarter of 2015, compared to 0.18% for the third quarter of 2014. For the first nine months of 2015, annualized net charge-off to average loans outstanding were 0.16% compared to 0.24% for the same period of 2014.

Non-interest Income - For the three and nine months ended September 30, 2015, non-interest income, excluding investment securities gains, increased \$1.2 million, or 2.9%, and \$3.6 million, or 2.9%, respectively, in comparison to the same periods in 2014. The increase in the third quarter of 2015 compared to the third quarter of 2014 was primarily a result of an increase in other service charges and fees, partially offset by lower mortgage banking income. The increase realized during the first nine months of 2015 compared to the first nine months of 2014 resulted from increases in other service charges and fees, mortgage banking income and other income.

Gains on sales of investment securities for the three and nine months ended September 30, 2015 were \$1.7 million and \$8.3 million, respectively, as compared to \$81,000 and \$1.2 million, respectively, for the three and nine months ended September 30, 2014.

Non-interest Expense - For the three and nine months ended September 30, 2015, non-interest expense increased \$9.1 million, or 7.9%, and \$20.2 million, or 5.9%, respectively, in comparison to the same periods in 2014. Included in non-interest expense for the three and nine months ended September 30, 2015 was a \$5.6 million loss incurred on the redemption of trust preferred securities ("TruPS"). Excluding this loss, non-interest expense increased \$3.5 million, or 3.0%, and \$14.6 million, or 4.3%, respectively, for the three and nine months ended September 30, 2015 compared to the same periods in 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. In both periods, these initiatives included branch consolidations, changes in employee benefits and reductions in staffing.

During the first nine months of 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 \$2.1 million for the first nine months of 2015. The annualized expense reductions from all of these 2015 initiatives, when completed, are projected to be approximately \$6.5 million, with \$4.8 million expected to be realized in 2015.

In 2014, cost savings initiatives resulted in implementation expenses, net of associated gains, of \$980,000 during the first nine months. Cost savings from these initiatives are estimated to be approximately \$7.9 million annually.

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

| | Three months ended September 30, 2015 | | Nine months ended September 30, 2015 | | Estimated Expense Reductions for the Year Ending December 31, 2015 | Estimated Annualized Cost Savings |
|--|--|-----------------------|---|-----------------------|--|--|
| | Implementation Expenses | Expense Reductions | Implementation Expenses | Expense Reductions | | |
| | (in thousands) | | | | | |
| Branch consolidations | \$70 | \$ (660) | \$ 1,640 | \$ (825) | \$ (1,590) | \$ (3,050) |
| Modification of retirement benefits and staffing reductions | — | (870) | 450 | (2,365) | (3,235) | (3,470) |
| 2015 cost savings initiatives | \$70 | \$ (1,530) | \$ 2,090 | \$ (3,190) | \$ (4,825) | \$ (6,520) |

| | Three months ended September 30, 2014 | | Nine months ended September 30, 2014 | | Actual Expense Reductions for the Year Ended December 31, 2014 | Estimated Annualized Cost Savings |
|---|--|-----------------------|---|-----------------------|--|--|
| | Implementation Expenses | Expense Reductions | Implementation Expenses (Gains) | Expense Reductions | | |
| | (in thousands) | | | | | |
| Branch consolidations | \$— | \$ (800) | \$ 2,080 | \$ (1,600) | \$ (2,400) | \$ (3,200) |
| Subsidiary bank management reductions and other employee benefit reductions | — | (1,175) | (1,100) | (3,370) | (4,550) | (4,700) |
| 2014 cost savings initiatives | \$— | \$ (1,975) | \$ 980 | \$ (4,970) | \$ (6,950) | \$ (7,900) |

Regulatory Enforcement Orders - During 2014 and 2015, the Corporation and each of its banking subsidiaries became subject to regulatory enforcement orders (the "Regulatory Orders") issued by banking regulatory agencies relating to identified deficiencies in a 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 Orders are described in more detail in Part II. Other Information, Item 1. Legal Proceedings.

The Regulatory 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.

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

2015 Outlook

The Corporation's original outlook for 2015 included the following:

- anticipated annual average loan and deposit growth rates of 3% to 7%;
- net interest margin compression at a rate of 0 to 4 basis points per quarter, on average, based on the current interest rate environment;
- continued modest provision for credit losses, although provisions could be impacted by the performance of individual credits;
- annual mid- to high-single digit annual growth rate in non-interest income, excluding the impact of securities gains;
- and

• annual non-interest expense growth in the low-single digit rate.

Based on results for the first nine months of 2015 and expectations for the remainder of 2015, the Corporation has updated its 2015 outlook. The updated outlook for 2015 is as follows:

- anticipated annual average loan and deposit growth rates of 3% to 7%, with loan growth likely to be at the lower end of the range;
- net interest margin compression at a rate of 0 to 3 basis points during the fourth quarter of 2015;
- continued modest provision for credit losses, although provisions could be impacted by the performance of individual credits;
- non-interest income growth is expected to be at, or just below, the lower end of the mid- to high-single digit range; and
- Excluding the loss on the redemption of TruPS, non-interest expense growth is expected to be at, or slightly above, the low single digit range.

Quarter Ended September 30, 2015 compared to the Quarter Ended September 30, 2014

Net Interest Income

Fully-taxable equivalent (FTE) net interest income decreased \$3.4 million, to \$130.3 million, in the third quarter of 2015, from \$133.7 million in the third quarter of 2014. This decrease was primarily due to a 21 basis point, or 6.2%, decrease in the net interest margin, to 3.18% for the third quarter of 2015 from 3.39% for the third quarter of 2014, partially offset by the impact of an increase in average interest-earning assets. The following table provides a comparative average balance sheet and net interest income analysis for the third quarter of 2015 as compared to the same period in 2014. 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 FTE amounts. All dollar amounts are in thousands.

| | Three months ended September 30 | | | | | |
|--|---------------------------------|-----------------|----------------|--------------------|-----------------|----------------|
| | 2015 | | | 2014 | | |
| | Average Balance | Interest (1) | Yield/ Rate | Average Balance | Interest (1) | Yield/ Rate |
| (dollars in thousands) | | | | | | |
| ASSETS | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans, net of unearned income (2) | \$ 13,369,874 | \$ 135,268 | 4.02 % | \$ 12,922,821 | \$ 136,773 | 4.20 % |
| Taxable investment securities (3) | 2,148,403 | 11,252 | 2.09 | 2,181,099 | 12,278 | 2.25 |
| Tax-exempt investment securities (3) | 230,178 | 2,929 | 5.09 | 256,303 | 3,414 | 5.33 |
| Equity securities (3) | 18,280 | 257 | 5.58 | 34,002 | 438 | 5.12 |
| Total investment securities | 2,396,861 | 14,438 | 2.41 | 2,471,404 | 16,130 | 2.61 |
| Loans held for sale | 20,704 | 194 | 3.74 | 23,699 | 237 | 4.01 |
| Other interest-earning assets | 477,145 | 884 | 0.74 | 293,286 | 976 | 1.33 |
| Total interest-earning assets | 16,264,584 | 150,784 | 3.68 % | 15,711,210 | 154,116 | 3.90 % |
| Noninterest-earning assets: | | | | | | |
| Cash and due from banks | 104,622 | | | 203,134 | | |
| Premises and equipment | 226,446 | | | 224,241 | | |
| Other assets | 1,097,600 | | | 1,055,521 | | |
| Less: Allowance for loan losses | (168,770) | | | (192,163) | | |
| Total Assets | \$ 17,524,482 | | | \$ 17,001,943 | | |
| LIABILITIES AND EQUITY | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Demand deposits | \$ 3,316,532 | \$ 1,122 | 0.13 % | \$ 3,047,191 | \$ 953 | 0.12 % |
| Savings deposits | 3,714,282 | 1,436 | 0.15 | 3,468,958 | 1,061 | 0.12 |
| Time deposits | 2,963,774 | 7,659 | 1.03 | 3,009,225 | 6,984 | 0.92 |
| Total interest-bearing deposits | 9,994,588 | 10,217 | 0.41 | 9,525,374 | 8,998 | 0.37 |
| Short-term borrowings | 324,685 | 92 | 0.11 | 667,397 | 297 | 0.18 |
| Federal Home Loan Bank advances and long-term debt | 996,247 | 10,225 | 4.09 | 995,486 | 11,129 | 4.45 |
| Total interest-bearing liabilities | 11,315,520 | 20,534 | 0.72 % | 11,188,257 | 20,424 | 0.73 % |
| Noninterest-bearing liabilities: | | | | | | |
| Demand deposits | 3,904,176 | | | 3,514,033 | | |
| Other | 281,957 | | | 210,194 | | |
| Total Liabilities | 15,501,653 | | | 14,912,484 | | |
| Shareholders' equity | 2,022,829 | | | 2,089,459 | | |
| Total Liabilities and Shareholders' Equity | \$ 17,524,482 | | | \$ 17,001,943 | | |

Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

| | | | | |
|---|-----------|--------|-----------|--------|
| Net interest income/net interest margin (FTE) | 130,250 | 3.18 % | 133,692 | 3.39 % |
| Tax equivalent adjustment | (4,556) | | (4,326) | |
| Net interest income | \$125,694 | | \$129,366 | |

(1) Includes dividends earned on equity securities.

(2) Includes non-performing loans.

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

The following table summarizes the changes in FTE interest income and interest expense resulting from changes in average balances (volume) and changes in rates for the three months ended September 30:

| | 2015 vs. 2014 | | |
|--|--------------------------------------|-----------|-----------|
| | Increase (Decrease) due to change in | | |
| | Volume | Rate | Net |
| | (in thousands) | | |
| Interest income on: | | | |
| Loans, net of unearned income | \$4,565 | \$(6,070) | \$(1,505) |
| Taxable investment securities | (178) | (848) | (1,026) |
| Tax-exempt investment securities | (336) | (149) | (485) |
| Equity securities | (217) | 36 | (181) |
| Loans held for sale | (28) | (15) | (43) |
| Other interest-earning assets | 457 | (549) | (92) |
| Total interest income | \$4,263 | \$(7,595) | \$(3,332) |
| Interest expense on: | | | |
| Demand deposits | \$87 | \$82 | \$169 |
| Savings deposits | 83 | 292 | 375 |
| Time deposits | (111) | 786 | 675 |
| Short-term borrowings | (116) | (89) | (205) |
| Federal Home Loan Bank advances and long-term debt | 9 | (913) | (904) |
| Total interest expense | \$(48) | \$158 | \$110 |

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

As summarized above, a 22 basis point, or 5.6%, decrease in yields on average interest-earning assets, primarily loans, resulted in a \$7.6 million decrease in FTE interest income, partially offset by a \$4.3 million increase in FTE interest income as a result of an increase in interest-earning assets, the net effect of increases in loans and other interest-earning assets, and a decrease in investment securities.

Average investment securities decreased \$74.5 million, or 3.0%, as portfolio cash flows were not fully reinvested. The yield on average investment securities decreased 20 basis points, or 7.7%, to 2.41% in the third quarter of 2015 from 2.61% in the third quarter of 2014. The decrease in average investment securities was partially offset by a \$183.9 million, or 62.7%, increase in other interest-earning assets. 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 non-interest earning assets to low-yielding interest-bearing Federal Reserve Bank accounts. As a result, the average yield on other interest-earning assets decreased 59 basis points, or 44.4%, despite the increase in average other interest-earning assets.

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

| | Three months ended September 30 | | | | Increase (Decrease) in | | |
|---|---------------------------------|--------|-------------|--------|------------------------|-------|---|
| | 2015 | | 2014 | | Balance | | |
| | Balance | Yield | Balance | Yield | \$ | % | |
| | (dollars in thousands) | | | | | | |
| Real estate – commercial mortgage | \$5,242,021 | 4.09 % | \$5,114,221 | 4.35 % | \$127,800 | 2.5 | % |
| Commercial – industrial, financial and agricultural | 3,887,161 | 3.78 | 3,657,047 | 3.97 | 230,114 | 6.3 | |
| Real estate – home equity | 1,692,860 | 4.08 | 1,727,253 | 4.18 | (34,393) | (2.0) |) |
| Real estate – residential mortgage | 1,381,141 | 3.78 | 1,369,087 | 3.93 | 12,054 | 0.9 | |

Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

| | | | | | | |
|----------------------------|--------------|--------|--------------|--------|-----------|--------|
| Real estate – construction | 753,584 | 3.88 | 663,922 | 3.98 | 89,662 | 13.5 |
| Consumer | 270,391 | 5.81 | 284,630 | 5.39 | (14,239) | (5.0) |
| Leasing and other | 142,716 | 6.79 | 106,661 | 7.32 | 36,055 | 33.8 |
| Total | \$13,369,874 | 4.02 % | \$12,922,821 | 4.20 % | \$447,053 | 3.5 % |

45

Average loans increased \$447.1 million, or 3.5%, compared to the third quarter of 2014, mainly in commercial loans, construction loans and leasing and other. The growth in commercial loans and leasing and other was driven by a combination of loans and leases to new customers and increased borrowings from existing customers, while the growth in construction loans was primarily due to an increase in loans secured by commercial properties. The average yield on loans decreased 18 basis points, or 4.3%, to 4.02% in 2015 from 4.20% in 2014. The decrease in average yields on loans was attributable to repayments of higher-yielding loans, continued refinancing activity at lower rates, and new loan production at rates lower than the overall portfolio yield.

Average total interest-bearing liabilities increased \$127.3 million, or 1.1%, compared to the third quarter of 2014. Interest expense increased \$110,000, or 0.5%, to \$20.5 million in the third quarter of 2015. Average deposits and average interest rates, by type, are summarized in the following table:

| | Three months ended September 30 | | | | Increase (Decrease) in | |
|----------------------------|---------------------------------|------|----------------|------|------------------------|--------|
| | 2015 | | 2014 | | Balance | |
| | Balance | Rate | Balance | Rate | \$ | % |
| | (dollars in thousands) | | | | | |
| Noninterest-bearing demand | \$3,904,176 | — | % \$3,514,033 | — | % \$390,143 | 11.1 % |
| Interest-bearing demand | 3,316,532 | 0.13 | 3,047,191 | 0.12 | 269,341 | 8.8 |
| Savings | 3,714,282 | 0.15 | 3,468,958 | 0.12 | 245,324 | 7.1 |
| Total demand and savings | 10,934,990 | 0.09 | 10,030,182 | 0.08 | 904,808 | 9.0 |
| Time deposits | 2,963,774 | 1.03 | 3,009,225 | 0.92 | (45,451) | (1.5) |
| Total deposits | \$13,898,764 | 0.29 | % \$13,039,407 | 0.27 | % \$859,357 | 6.6 % |

The \$904.8 million, or 9.0%, increase in total demand and savings accounts was primarily due to a \$427.4 million, or 12.3%, increase in business account balances, a \$352.3 million, or 7.6%, increase in personal account balances and a \$124.7 million, or 6.7%, increase in municipal account balances. The average cost of total deposits increased two basis points largely due to an increase in rates on average time deposits.

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

| | Three months ended September 30 | | | | Increase (Decrease) | |
|--------------------------------------|---------------------------------|------|-------------|------|---------------------|----------|
| | 2015 | | 2014 | | in Balance | |
| | Balance | Rate | Balance | Rate | \$ | % |
| | (dollars in thousands) | | | | | |
| Short-term borrowings: | | | | | | |
| Customer repurchase agreements | \$149,415 | 0.10 | % \$202,809 | 0.11 | % \$(53,394) | (26.3)% |
| Customer short-term promissory notes | 79,308 | 0.02 | 83,734 | 0.05 | (4,426) | (5.3) |
| Total short-term customer funding | 228,723 | 0.07 | 286,543 | 0.09 | (57,820) | (20.2) |
| Federal funds purchased | 85,092 | 0.19 | 224,930 | 0.19 | (139,838) | (62.2) |
| Short-term FHLB advances (1) | 10,870 | 0.34 | 155,924 | 0.32 | (145,054) | (93.0) |
| Total short-term borrowings | 324,685 | 0.11 | 667,397 | 0.18 | (342,712) | (51.4) |
| Long-term debt: | | | | | | |
| FHLB advances | 618,010 | 3.49 | 625,712 | 3.60 | (7,702) | (1.2) |
| Other long-term debt | 378,237 | 5.06 | 369,774 | 5.89 | 8,463 | 2.3 |
| Total long-term debt | 996,247 | 4.09 | 995,486 | 4.45 | 761 | 0.1 |

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

Total short-term borrowings decreased \$342.7 million, or 51.4%, primarily in Federal funds purchased and short-term FHLB advances. The decrease was driven by lower wholesale funding needs resulting from the increase in average deposits exceeding the growth in average interest-earning assets.

Average other long-term debt increased \$8.5 million, or 2.3%. This increase was the net impact of the maturity of \$100.0 million of subordinated debt in April 2015 and the redemption of \$150.0 million of TruPS in July 2015, and the issuances of \$100.0 million and \$150.0 million of subordinated debt in November 2014 and June 2015, respectively. As a result of these transactions, the cost of other long-term debt decreased 83 basis points.

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 advances maturing from September 2019 to December 2020, at a weighted average rate of 2.95%. This transaction will reduce 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.

Provision for Credit Losses

The provision for credit losses was \$1.0 million for the third quarter of 2015, a decrease of \$2.5 million from the third quarter of 2014. This decrease resulted from lower allowance for credit losses allocation needs as asset quality improved.

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 the "Financial Condition" section of Management's Discussion under the heading "Provision for Credit Losses and Allowance for Credit Losses" for details related to the Corporation's allowance and provision for credit losses.

Non-Interest Income

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

| | Three months ended | | Increase (Decrease) | |
|--|------------------------|----------|---------------------|--------|
| | September 30 | | | |
| | 2015 | 2014 | \$ | % |
| | (dollars in thousands) | | | |
| Service charges on deposit accounts: | | | | |
| Overdraft fees | \$5,652 | \$5,806 | \$(154) | (2.7)% |
| Cash management fees | 3,418 | 3,191 | 227 | 7.1 |
| Other | 3,912 | 3,804 | 108 | 2.8 |
| Total service charges on deposit accounts | 12,982 | 12,801 | 181 | 1.4 |
| Investment management and trust services | 11,237 | 11,120 | 117 | 1.1 |
| Other service charges and fees: | | | | |
| Merchant fees | 4,000 | 3,774 | 226 | 6.0 |
| Debit card income | 2,572 | 2,407 | 165 | 6.9 |
| Letter of credit fees | 1,143 | 1,163 | (20) | (1.7) |
| Commercial swap fees | 1,251 | 537 | 714 | 133.0 |
| Other | 1,999 | 2,073 | (74) | (3.6) |
| Total other service charges and fees | 10,965 | 9,954 | 1,011 | 10.2 |
| Mortgage banking income: | | | | |
| Gain on sales of mortgage loans | 2,627 | 2,613 | 14 | 0.5 |
| Mortgage servicing income | 1,237 | 1,425 | (188) | (13.2) |
| Total mortgage banking income | 3,864 | 4,038 | (174) | (4.3) |
| Credit card income | 2,548 | 2,331 | 217 | 9.3 |
| Other income | 1,448 | 1,575 | (127) | (8.1) |
| Total, excluding gains on sales of investment securities | 43,044 | 41,819 | 1,225 | 2.9 |
| Net gains on sales of investment securities | 1,730 | 81 | 1,649 | N/M |
| Total | \$44,774 | \$41,900 | \$2,874 | 6.9% |

N/M - Not meaningful

Excluding gains on sales of investment securities, non-interest income increased \$1.2 million, or 2.9%, the net effect of modest increases in certain income categories being partially offset by modest decreases in others. Other service charges and fees grew \$1.0 million, or 10.2%, driven mainly by a \$714,000 increase in commercial swap fees as new loan volumes increased in comparison to the third quarter of 2014. Service charges on deposits increased a moderate \$181,000, or 1.4%, as a \$227,000, or 7.1%, increase in cash management fees resulting from changes in fee structures were partially offset by lower overdraft fees.

Gains on sales of mortgage loans remained flat when compared to the third quarter of 2014, the net effect of a 13.7% increase in volumes and a 11.6% decrease in spreads. Mortgage servicing income decreased \$188,000, or 13.2%, due to an increase in amortization of mortgage servicing rights (MSRs), as prepayments were higher due to higher refinancing volumes when compared to the third quarter of 2014.

Investment securities gains for the third quarter of 2015 resulted from sales of financial institution stocks. Investment securities gains in the third quarter of 2014 resulted from sales of financial institution stocks, partially offset by other-than-temporary impairment losses. See Note 4, "Investment Securities," in the Notes to Consolidated Financial Statements for additional details.

Non-Interest Expense

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

| | Three months ended | | Increase (Decrease) | | |
|--|------------------------|-----------|---------------------|--------|---|
| | September 30 | | | | |
| | 2015 | 2014 | \$ | % | |
| | (dollars in thousands) | | | | |
| Salaries and employee benefits | \$65,308 | \$62,434 | \$2,874 | 4.6 | % |
| Net occupancy expense | 10,710 | 11,582 | (872) | (7.5) |) |
| Other outside services | 7,373 | 8,632 | (1,259) | (14.6) |) |
| Loss on redemption of trust preferred securities | 5,626 | — | 5,626 | N/M | |
| Data processing | 5,105 | 4,689 | 416 | 8.9 | |
| Software | 3,984 | 3,353 | 631 | 18.8 | |
| Equipment expense | 3,595 | 3,307 | 288 | 8.7 | |
| FDIC insurance expense | 2,867 | 2,882 | (15) | (0.5) |) |
| Professional fees | 2,828 | 3,252 | (424) | (13.0) |) |
| Supplies and postage | 2,708 | 2,560 | 148 | 5.8 | |
| Marketing | 2,102 | 1,798 | 304 | 16.9 | |
| Telecommunications | 1,587 | 1,587 | — | — | |
| Operating risk loss | 1,136 | 1,242 | (106) | (8.5) |) |
| Other real estate owned and repossession expense | 1,016 | 1,303 | (287) | (22.0) |) |
| Intangible amortization | 5 | 314 | (309) | (98.4) |) |
| Other | 8,939 | 6,863 | 2,076 | 30.2 | |
| Total | \$124,889 | \$115,798 | \$9,091 | 7.9 | % |

N/M - Not meaningful

The \$2.9 million, or 4.6%, increase in salaries and employee benefits resulted from a \$2.3 million, or 4.2%, increase in salaries and a \$625,000, or 6.7%, increase in employee benefits. The increase in salaries was primarily due to higher average salaries per full-time equivalent (FTE) employee and an increase in incentive compensation, partially offset by the impact of a decrease in the average number of FTE employees, to 3,450 as of September 30, 2015 from 3,530 as of September 30, 2014. The decrease in FTE employees reflects the cost savings initiatives, primarily branch consolidations. The increase in employee benefits was primarily due to increases in defined benefit plan expense and other employee benefits, partially offset by a decrease in profit sharing expense.

The \$1.3 million, or 14.6%, decrease in other outside services was primarily in costs related to BSA/AML remediation efforts. The \$1.0 million, or 13.1%, combined increase in data processing and software resulted from increased transaction volume and contractual increases for expenses related to core processing systems and amortization of capitalized software investments. The \$2.1 million increase in the other expenses was largely impacted by costs associated with branch consolidations.

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

Income Taxes

Income tax expense for the third quarter of 2015 was \$10.3 million, a \$3.1 million, or 22.9%, decrease from \$13.4 million for the third quarter of 2014.

The Corporation's effective tax rate was 23.2% in the third quarter of 2015, as compared to 25.8% in the third quarter of 2014. The effective tax rate is generally lower than the Federal statutory rate of 35% due to investments in tax-free municipal securities and credits earned from investments in partnerships that generate tax credits under various federal programs. The decrease in the effective rate from the third quarter of 2014 was driven by lower income before income taxes, mainly resulting from the loss on redemption of TruPS, and higher net tax credits.

Nine Months Ended September 30, 2015 compared to the Nine Months Ended September 30, 2014

Net Interest Income

FTE net interest income decreased \$13.9 million, or 3.5%, to \$385.8 million in the first nine months of 2015 from \$399.7 million in the same period of 2014. Net interest margin decreased 20 basis points, or 5.8%, to 3.22% for the first nine months of 2015 from 3.42% for the first nine months of 2014. The decrease in net interest margin was the result of an 18 basis point, or 4.6%, decrease in yields on interest-earning assets, and a 5 basis point, or 7.0%, increase in funding costs.

| | Nine months ended September 30 | | | | | | | |
|---|--------------------------------|-----------|--------|---------|--------------|-----------|------|---|
| | 2015 | | | 2014 | | | | |
| | Average | Interest | Yield/ | Average | Interest | Yield/ | | |
| | Balance | (1) | Rate | Balance | (1) | Rate | | |
| | (dollars in thousands) | | | | | | | |
| ASSETS | | | | | | | | |
| Interest-earning assets: | | | | | | | | |
| Loans, net of unearned income (2) | \$13,220,339 | \$401,662 | 4.06 | % | \$12,827,563 | \$405,904 | 4.23 | % |
| Taxable investment securities (3) | 2,068,025 | 33,478 | 2.16 | | 2,216,344 | 37,962 | 2.28 | |
| Tax-exempt investment securities (3) | 225,209 | 9,035 | 5.35 | | 268,604 | 10,561 | 5.24 | |
| Equity securities (3) | 25,985 | 1,086 | 5.59 | | 33,949 | 1,286 | 5.06 | |
| Total investment securities | 2,319,219 | 43,599 | 2.51 | | 2,518,897 | 49,809 | 2.64 | |
| Loans held for sale | 21,360 | 632 | 3.94 | | 18,259 | 585 | 4.27 | |
| Other interest-earning assets | 463,545 | 3,922 | 1.13 | | 263,797 | 3,065 | 1.55 | |
| Total interest-earning assets | 16,024,463 | 449,815 | 3.75 | % | 15,628,516 | 459,363 | 3.93 | % |
| Noninterest-earning assets: | | | | | | | | |
| Cash and due from banks | 104,870 | | | | 200,368 | | | |
| Premises and equipment | 226,469 | | | | 225,033 | | | |
| Other assets | 1,101,856 | | | | 1,041,834 | | | |
| Less: Allowance for loan losses | (176,205) |) | | | (197,235) |) | | |
| Total Assets | \$17,281,453 | | | | \$16,898,516 | | | |
| LIABILITIES AND EQUITY | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | |
| Demand deposits | \$3,202,380 | \$3,092 | 0.13 | % | \$2,969,470 | \$2,766 | 0.12 | % |
| Savings deposits | 3,600,695 | 3,802 | 0.14 | | 3,392,681 | 3,127 | 0.12 | |
| Time deposits | 3,017,271 | 23,199 | 1.03 | | 2,984,861 | 19,686 | 0.88 | |
| Total interest-bearing deposits | 9,820,346 | 30,093 | 0.41 | | 9,347,012 | 25,579 | 0.37 | |
| Short-term borrowings | 338,019 | 272 | 0.11 | | 972,694 | 1,470 | 0.20 | |
| FHLB advances and long-term debt | 1,048,634 | 33,669 | 4.29 | | 924,920 | 32,606 | 4.71 | |
| Total interest-bearing liabilities | 11,206,999 | 64,034 | 0.76 | % | 11,244,626 | 59,655 | 0.71 | % |
| Noninterest-bearing liabilities: | | | | | | | | |
| Demand deposits | 3,767,919 | | | | 3,360,876 | | | |
| Other | 282,983 | | | | 214,826 | | | |
| Total Liabilities | 15,257,901 | | | | 14,820,328 | | | |
| Shareholders' equity | 2,023,552 | | | | 2,078,188 | | | |
| Total Liabilities and Shareholders' Equity | \$17,281,453 | | | | \$16,898,516 | | | |
| Net interest income/net interest margin (FTE) | | 385,781 | 3.22 | % | | 399,708 | 3.42 | % |

Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

| | | |
|---------------------------|-----------|-----------|
| Tax equivalent adjustment | (13,586) | (12,879) |
| Net interest income | \$372,195 | \$386,829 |

(1) Includes dividends earned on equity securities.

(2) Includes non-performing loans.

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

The following table summarizes the changes in FTE interest income and expense for the first nine months of 2015 as compared to the same period in 2014 due to changes in average balances (volume) and changes in rates:

| | 2015 vs. 2014 | | |
|----------------------------------|--------------------------------------|-------------|------------|
| | Increase (Decrease) due to change in | | |
| | Volume | Rate | Net |
| | (in thousands) | | |
| Interest income on: | | | |
| Loans, net of unearned income | \$ 12,249 | \$(16,491) | \$(4,242) |
| Taxable investment securities | (1,984) | (2,500) | (4,484) |
| Tax-exempt investment securities | (1,299) | (227) | (1,526) |
| Equity securities | (322) | 122 | (200) |
| Loans held for sale | 111 | (64) | 47 |
| Other interest-earning assets | 2,403 | (1,546) | 857 |
| Total interest income | \$ 11,158 | \$(20,706) | \$(9,548) |
| Interest expense on: | | | |
| Demand deposits | \$ 222 | \$ 104 | \$ 326 |
| Savings deposits | 200 | 475 | 675 |
| Time deposits | 216 | 3,297 | 3,513 |
| Short-term borrowings | (698) | (500) | (1,198) |
| FHLB advances and long-term debt | 4,115 | (3,052) | 1,063 |
| Total interest expense | \$ 4,055 | \$ 324 | \$ 4,379 |

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

An 18 basis point, or 4.6%, decrease in yields on average interest-earning assets resulted in a \$20.7 million decrease in FTE interest income. This decrease was partially offset by an \$11.2 million increase in FTE interest income resulting from a \$395.9 million, or 2.5%, increase in average interest-earning assets. Increases in loans and other interest-earning assets were partially offset by a decrease in average investment securities.

Average investment securities decreased \$199.7 million, or 7.9%, as portfolio cash flows were not fully reinvested. The yield on average investments decreased 13 basis points, or 4.9%, to 2.51% in 2015 from 2.64% in 2014. The decrease in average investment securities was offset by a \$199.7 million, or 75.7%, increase in other interest-earning assets. 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 non-interest earning assets to low-yielding interest-bearing Federal Reserve Bank accounts, which contributed to a decrease in the yield on other interest-earning assets.

Average loans, by type, are summarized in the following table:

| | Nine months ended September 30 | | | | Increase (Decrease) in Balance | |
|---|--------------------------------|--------|--------------|--------|--------------------------------|-------|
| | 2015 | | 2014 | | \$ | % |
| | Balance | Yield | Balance | Yield | | |
| | (dollars in thousands) | | | | | |
| Real estate – commercial mortgage | \$ 5,205,755 | 4.15 % | \$ 5,112,735 | 4.38 % | \$ 93,020 | 1.8 % |
| Commercial – industrial, financial and agricultural | 3,831,678 | 3.81 | 3,637,440 | 3.98 | 194,238 | 5.3 |

Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

| | | | | | | | |
|------------------------------------|--------------|------|----------------|------|-------------|--------|---|
| Real estate – home equity | 1,703,006 | 4.11 | 1,739,352 | 4.18 | (36,346 |) (2.1 |) |
| Real estate – residential mortgage | 1,369,367 | 3.81 | 1,348,269 | 3.96 | 21,098 | 1.6 | |
| Real estate – construction | 713,893 | 3.93 | 609,803 | 4.08 | 104,090 | 17.1 | |
| Consumer | 265,002 | 5.52 | 278,697 | 4.93 | (13,695 |) (4.9 |) |
| Leasing and other | 131,638 | 7.33 | 101,267 | 8.88 | 30,371 | 30.0 | |
| Total | \$13,220,339 | 4.06 | % \$12,827,563 | 4.23 | % \$392,776 | 3.1 | % |

The average yield on loans decreased 17 basis points, or 4.0%, to 4.06% in 2015 from 4.23% in 2014. The decrease in average yields on loans was attributable to repayments of higher-yielding loans and new loan production at lower rates. Average loan balances increased \$392.8 million, or 3.1%. The \$194.2 million, or 5.3%, increase in commercial loans, the \$104.1 million, or 17.1%, increase in real estate construction loans and the \$93.0 million, or 1.8%, increase in commercial mortgages were from both new and existing customers.

Interest expense increased \$4.4 million, or 7.3%, to \$64.0 million in the first nine months of 2015 from \$59.7 million in the first nine months of 2014. Although total average interest-bearing liabilities decreased \$37.6 million, or 0.3%, compared to the first nine months of 2014, 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 and subordinated debt drove the \$4.1 million increase in interest expense attributable to volume.

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

| | Nine months ended September 30 | | | | Increase in Balance | | |
|----------------------------|--------------------------------|------|----------------|------|---------------------|------|---|
| | 2015 | | 2014 | | \$ | % | |
| | Balance | Rate | Balance | Rate | | | |
| | (dollars in thousands) | | | | | | |
| Noninterest-bearing demand | \$3,767,919 | — | % \$3,360,876 | — | % \$407,043 | 12.1 | % |
| Interest-bearing demand | 3,202,380 | 0.13 | 2,969,470 | 0.12 | 232,910 | 7.8 | |
| Savings | 3,600,695 | 0.14 | 3,392,681 | 0.12 | 208,014 | 6.1 | |
| Total demand and savings | 10,570,994 | 0.09 | 9,723,027 | 0.08 | 847,967 | 8.7 | |
| Time deposits | 3,017,271 | 1.03 | 2,984,861 | 0.88 | 32,410 | 1.1 | |
| Total deposits | \$13,588,265 | 0.30 | % \$12,707,888 | 0.27 | % \$880,377 | 6.9 | % |

The \$848.0 million, or 8.7%, increase in total demand and savings account balances was primarily due to a \$416.3 million, or 12.5%, increase in business account balances, a \$277.9 million, or 6.0%, increase in personal account balances and a \$153.8 million, or 8.9%, increase in municipal account balances. The average cost of deposits increased 3 basis points, or 11.1%, to 0.30% in 2015 from 0.27% in 2014, primarily due to an increase in higher-cost time deposits.

The following table summarizes changes in average short-term borrowings and long-term debt, by type:

| | Nine months ended September 30 | | | | Increase (Decrease) | | |
|--------------------------------------|--------------------------------|------|-------------|------|---------------------|---------|---|
| | 2015 | | 2014 | | \$ | % | |
| | Balance | Rate | Balance | Rate | | | |
| | (dollars in thousands) | | | | | | |
| Short-term borrowings: | | | | | | | |
| Customer repurchase agreements | \$167,526 | 0.10 | % \$202,184 | 0.11 | % \$(34,658) | (17.1) | % |
| Customer short-term promissory notes | 81,854 | 0.02 | 89,119 | 0.05 | (7,265) | (8.2) | |
| Total short-term customer funding | 249,380 | 0.07 | 291,303 | 0.09 | (41,923) | (14.4) | |
| Federal funds purchased | 72,961 | 0.17 | 361,162 | 0.21 | (288,201) | (79.8) | |
| Short-term FHLB advances (1) | 15,678 | 0.31 | 320,229 | 0.29 | (304,551) | (95.1) | |
| Total short-term borrowings | 338,019 | 0.11 | 972,694 | 0.20 | (634,675) | (65.2) | |
| Long-term debt: | | | | | | | |
| FHLB advances | 634,403 | 3.50 | 555,172 | 3.92 | 79,231 | 14.3 | |
| Other long-term debt | 414,231 | 5.50 | 369,748 | 5.90 | 44,483 | 12.0 | |
| Total long-term debt | 1,048,634 | 4.29 | 924,920 | 4.71 | 123,714 | 13.4 | |

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

Total short-term borrowings decreased \$634.7 million, or 65.2%, primarily in federal funds purchased and in short-term FHLB advances. The repayment of short-term borrowings was funded mainly by the increase in average deposits. Total long-term borrowings increased \$123.7 million, or 13.4%, as a result of the Corporation's efforts to

lengthen maturities and lock in longer-term rates.

Provision for Credit Losses

The provision for credit losses was a negative \$500,000 for the first nine months of 2015, a decrease of \$10.0 million, or 105.3%, in comparison to the first nine months of 2014, reflecting improvements in asset quality. In the first quarter of 2015, a negative provision of \$3.7 million was recorded, primarily due to an improvement in all credit quality measures, particularly net charge-off levels, across all loan portfolio segments. For details related to the Corporation's allowance and provision for credit losses, see the "Financial Condition" section of Management's Discussion under the heading "Provision for Credit Losses and Allowance for Credit Losses."

Non-Interest Income

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

| | Nine months ended September 30 | | Increase (Decrease) | | |
|--|-----------------------------------|------------|---------------------|---------|----|
| | 2015 | 2014 | \$ | % | |
| | (dollars in thousands) | | | | |
| Service charges on deposit accounts: | | | | | |
| Overdraft fees | \$ 15,806 | \$ 16,645 | \$ (839 |) (5.0 |)% |
| Cash management fees | 10,004 | 9,589 | 415 | 4.3 | |
| Other | 11,378 | 10,830 | 548 | 5.1 | |
| Total service charges on deposit accounts | 37,188 | 37,064 | 124 | 0.3 | |
| Investment management and trust services | 33,137 | 33,417 | (280 |) (0.8 |) |
| Other service charges and fees: | | | | | |
| Merchant fees | 11,265 | 10,340 | 925 | 8.9 | |
| Debit card income | 7,587 | 7,052 | 535 | 7.6 | |
| Letter of credit fees | 3,474 | 3,448 | 26 | 0.8 | |
| Commercial swap fees | 3,088 | 2,544 | 544 | 21.4 | |
| Other | 5,902 | 6,023 | (121 |) (2.0 |) |
| Total other service charges and fees | 31,316 | 29,407 | 1,909 | 6.5 | |
| Mortgage banking income: | | | | | |
| Gain on sales of mortgage loans | 10,588 | 8,009 | 2,579 | 32.2 | |
| Mortgage servicing income | 3,303 | 5,375 | (2,072 |) (38.5 |) |
| Total mortgage banking income | 13,891 | 13,384 | 507 | 3.8 | |
| Credit card income | 7,257 | 6,855 | 402 | 5.9 | |
| Other income | 4,921 | 3,958 | 963 | 24.3 | |
| Total, excluding gains on sales of investment securities | 127,710 | 124,085 | 3,625 | 2.9 | |
| Net gains on sales of investment securities | 8,290 | 1,193 | 7,097 | N/M | |
| Total | \$ 136,000 | \$ 125,278 | \$ 10,722 | 8.6 | % |

N/M - Not meaningful

Total service charges on deposits increased a modest \$124,000, or 0.3%. Improvements were seen in other service charges on deposits (\$548,000, or 5.1%, increase) due to growth in balances, and cash management fees (\$415,000, or 4.3%, increase) due to changes in fee structures. These increases were largely offset by an \$839,000, or 5.0%, decrease in overdraft fees due to lower volumes partially driven by changes in customer behavior.

The \$925,000, or 8.9%, increase in merchant fee income, the \$535,000, or 7.6%, increase in debit card income, and the \$402,000, or 5.9%, increase in credit card income were largely driven by higher transaction volumes. Commercial swap fees increased \$544,000, or 21.4%, due to higher new loan volumes.

Gains on sales of mortgage loans increased \$2.6 million, or 32.2%, due to a \$168.6 million, or 26.0%, increase in new loan commitments and a 4.9% increase in pricing spreads compared to 2014. The increase in new loan commitments was largely in refinancing volumes, which were \$408.0 million, or 49.9%, of new loan commitments in 2015 compared to \$186.5 million, or

28.8%, during 2014. Mortgage servicing income decreased \$2.1 million, or 38.5%, due to an increase in amortization of mortgage servicing rights (MSRs), as prepayments increased when compared to 2014.

The \$963,000, or 24.3%, increase in other income was due to higher gains on sales of fixed assets, primarily branch properties, in 2015.

Investment securities gains of \$8.3 million for the first nine months of 2015 were a result of \$6.0 million of net realized gains on the sales of financial institution stocks and \$2.3 million of net realized gains on the sales of debt securities. The \$1.2 million of investment securities gains for first nine months of 2014 included \$1.1 million of net realized gains on debt securities and \$88,000 of net realized gains on the sales of financial institution stocks.

Non-Interest Expense

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

| | Nine months ended | | Increase (Decrease) | | |
|--|------------------------|------------|---------------------|--------|---|
| | September 30 | | | | |
| | 2015 | 2014 | \$ | % | |
| | (dollars in thousands) | | | | |
| Salaries and employee benefits | \$ 195,365 | \$ 185,623 | \$ 9,742 | 5.2 | % |
| Net occupancy expense | 36,211 | 36,649 | (438) | (1.2) |) |
| Other outside services | 21,248 | 19,684 | 1,564 | 7.9 | |
| Data processing | 14,767 | 12,816 | 1,951 | 15.2 | |
| Equipment expense | 10,888 | 10,269 | 619 | 6.0 | |
| Software | 10,678 | 9,487 | 1,191 | 12.6 | |
| FDIC insurance expense | 8,574 | 8,186 | 388 | 4.7 | |
| Professional fees | 8,430 | 9,715 | (1,285) | (13.2) |) |
| Supplies and postage | 7,803 | 7,337 | 466 | 6.4 | |
| Loss on redemption of trust preferred securities | 5,626 | — | 5,626 | N/M | |
| Marketing | 5,570 | 5,719 | (149) | (2.6) |) |
| Telecommunications | 4,920 | 5,193 | (273) | (5.3) |) |
| Other real estate owned and repossession expense | 2,507 | 3,034 | (527) | (17.4) |) |
| Operating risk loss | 2,637 | 3,786 | (1,149) | (30.3) |) |
| Intangible amortization | 241 | 944 | (703) | (74.5) |) |
| Other | 26,256 | 23,084 | 3,172 | 13.7 | |
| Total | \$ 361,721 | \$ 341,526 | \$ 20,195 | 5.9 | % |

N/M - Not meaningful

Salaries and employee benefits increased \$9.7 million, or 5.2%, with salaries increasing \$6.9 million, or 4.4%, and employee benefits increasing \$2.8 million, or 9.9%. 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 3,470 for the nine months ended September 30, 2015, compared to 3,540 for the nine months ended September 30, 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 the post-retirement plan amendment in 2014.

Other outside services increased \$1.6 million, or 7.9%, due to an increase in consulting services related to the Corporation's risk management and compliance efforts, including those in connection with the enhancement of the Corporation's program for compliance with the BSA/AML Requirements. While BSA/AML remediation costs decreased for the third quarter of 2015 as compared to the third quarter of 2014, the year to date costs were higher due to significant expenditures incurred earlier in the year.

The \$3.1 million, or 14.1%, combined increase in data processing and software resulted from increased expenses related to the core processing system used to maintain customer account records as a result of contractual increases and higher transaction volumes, and amortization of software.

The \$1.3 million, or 13.2%, decrease in professional fees was due to a decrease in legal fees primarily resulting from the timing of engagements with outside counsel.

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

The \$527,000, or 17.4%, 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 \$1.1 million, or 30.3%, decrease in operating risk loss was due to a \$1.3 million decrease in check card fraud losses, partially offset by a \$215,000 increase in losses associated with previously sold residential mortgages. See Note 12 "Commitments and Contingencies," in the Notes to Consolidated Financial Statements for additional details related to repurchases of previously sold residential mortgages.

Income Taxes

Income tax expense for the first nine months of 2015 was \$36.0 million, a \$5.1 million, or 12.5%, decrease from \$41.1 million in 2014.

The Corporation's effective tax rate was 24.5% in 2015, as compared to 25.5% in 2014. The effective tax rate is generally lower than the Federal statutory rate of 35% due to investments in tax-free municipal securities, tax credits earned from investments in partnerships that generate such credits under various federal programs and the effect of state income taxes. The lower effective tax rate in 2015 was driven by lower pre-tax income.

FINANCIAL CONDITION

The table below presents condensed consolidated ending balance sheets.

| | September 30, 2015 | December 31, 2014 | Increase (Decrease) | | |
|--|-----------------------|----------------------|---------------------|--------|----|
| | | | \$ | % | |
| (dollars in thousands) | | | | | |
| Assets | | | | | |
| Cash and due from banks | \$93,803 | \$105,702 | \$(11,899) | (11.3) |)% |
| Other interest-earning assets | 579,920 | 423,083 | 156,837 | 37.1 | |
| Loans held for sale | 26,937 | 17,522 | 9,415 | 53.7 | |
| Investment securities | 2,436,337 | 2,323,371 | 112,966 | 4.9 | |
| Loans, net of allowance | 13,369,225 | 12,927,572 | 441,653 | 3.4 | |
| Premises and equipment | 225,705 | 226,027 | (322) | (0.1) |) |
| Goodwill and intangible assets | 531,562 | 531,803 | (241) | — | |
| Other assets | 574,570 | 569,687 | 4,883 | 0.9 | |
| Total Assets | \$17,838,059 | \$17,124,767 | \$713,292 | 4.2 | % |
| Liabilities and Shareholders' Equity | | | | | |
| Deposits | \$14,084,394 | \$13,367,506 | \$716,888 | 5.4 | % |
| Short-term borrowings | 431,631 | 329,719 | 101,912 | 30.9 | |
| Long-term debt | 979,433 | 1,139,413 | (159,980) | (14.0) |) |
| Other liabilities | 316,697 | 291,464 | 25,233 | 8.7 | |
| Total Liabilities | 15,812,155 | 15,128,102 | 684,053 | 4.5 | |
| Total Shareholders' Equity | 2,025,904 | 1,996,665 | 29,239 | 1.5 | |
| Total Liabilities and Shareholders' Equity | \$17,838,059 | \$17,124,767 | \$713,292 | 4.2 | % |

The \$156.8 million, or 37.1%, increase in other interest-earning assets resulted from higher balances on deposit with the Federal Reserve Bank due to a higher net liquidity position.

Investment Securities

The following table presents the carrying amount of investment securities:

| | September 30, 2015 | December 31, 2014 | Increase (Decrease) | | |
|---|-----------------------|----------------------|---------------------|---------|----|
| | | | \$ | % | |
| (dollars in thousands) | | | | | |
| U.S. Government securities | \$— | \$200 | \$(200) | (100.0) |)% |
| U.S. Government sponsored agency securities | 48,551 | 214 | 48,337 | N/M | |
| State and municipal securities | 240,236 | 245,215 | (4,979) | (2.0) |) |
| Corporate debt securities | 99,941 | 98,034 | 1,907 | 1.9 | |
| Collateralized mortgage obligations | 874,299 | 902,313 | (28,014) | (3.1) |) |
| Mortgage-backed securities | 1,051,905 | 928,831 | 123,074 | 13.3 | |
| Auction rate securities | 97,873 | 100,941 | (3,068) | (3.0) |) |
| Total debt securities | 2,412,805 | 2,275,748 | 137,057 | 6.0 | |
| Equity securities | 23,532 | 47,623 | (24,091) | (50.6) |) |
| Total | \$2,436,337 | \$2,323,371 | \$112,966 | 4.9 | % |

N/M - Not meaningful

Total investment securities increased \$113.0 million, or 4.9%, in comparison to December 31, 2014, as prior period portfolio cash flows were reinvested in mortgage-backed securities and U.S. Government sponsored agency securities.

The \$24.1 million, or 50.6%, decrease in equity securities reflects the sales of certain financial institutions stocks during the first nine months of 2015.

56

Loans, net of unearned income

The following table presents ending balances of loans outstanding, net of unearned income:

| | September 30, 2015 | December 31, 2014 | Increase (Decrease) | | |
|---|------------------------|----------------------|---------------------|-------|---|
| | | | \$ | % | |
| | (dollars in thousands) | | | | |
| Real-estate – commercial mortgage | \$5,339,928 | \$5,197,155 | \$142,773 | 2.7 | % |
| Commercial – industrial, financial and agricultural | 3,929,908 | 3,725,567 | 204,341 | 5.5 | |
| Real-estate – home equity | 1,693,649 | 1,736,688 | (43,039) | (2.5) |) |
| Real-estate – residential mortgage | 1,382,085 | 1,377,068 | 5,017 | 0.4 | |
| Real-estate – construction | 769,565 | 690,601 | 78,964 | 11.4 | |
| Consumer | 271,696 | 265,431 | 6,265 | 2.4 | |
| Leasing and other | 149,530 | 119,206 | 30,324 | 25.4 | |
| Loans, net of unearned income | \$13,536,361 | \$13,111,716 | \$424,645 | 3.2 | % |

The Corporation does not have a significant concentration of credit risk with any single borrower, industry or geographical location. Approximately \$6.1 billion, or 45.1%, of the loan portfolio was in commercial mortgage and construction loans as of September 30, 2015. The Corporation's maximum total lending commitment to an individual borrower was \$50.0 million as of September 30, 2015. In addition to its policy of limiting the maximum total lending commitment to any individual borrower to \$50.0 million, 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 September 30, 2015, the Corporation had 101 relationships with total borrowing commitments between \$20.0 million and \$50.0 million.

Commercial loans increased \$204.3 million, or 5.5%. The increase was primarily in the Pennsylvania (\$191.0 million, or 7.3%) and Maryland (\$25.8 million, or 8.6%) markets, partially offset by decreases in the Delaware and New Jersey markets. Commercial mortgage loans increased \$142.8 million, or 2.7%, in comparison to December 31, 2014, generally in all markets, with the exception of the New Jersey market, which experienced a slight decrease.

The following table summarizes the percentage of commercial loans, by industry:

| | September 30, 2015 | | December 31, 2014 | |
|------------------------|-----------------------|---|----------------------|---|
| Services | 20.2 | % | 19.2 | % |
| Manufacturing | 12.5 | | 13.1 | |
| Health care | 10.5 | | 9.0 | |
| Construction (1) | 10.4 | | 11.0 | |
| Retail | 8.8 | | 9.6 | |
| Wholesale | 8.6 | | 8.7 | |
| Real estate (2) | 7.5 | | 7.6 | |
| Agriculture | 4.9 | | 5.5 | |
| Arts and entertainment | 2.9 | | 3.4 | |
| Transportation | 2.2 | | 2.4 | |
| Financial services | 1.9 | | 1.9 | |
| Other | 9.6 | | 8.6 | |
| | 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 \$20.0 million that are shared by three or more banks. Below is a summary of the Corporation's outstanding purchased shared national credits:

| | September 30, 2015 | December 31, 2014 |
|---|-----------------------|----------------------|
| | (in thousands) | |
| Commercial - industrial, financial and agricultural | \$147,791 | \$116,705 |
| Real estate - commercial mortgage | 124,971 | 137,952 |
| | \$272,762 | \$254,657 |

Total shared national credits increased \$18.1 million, or 7.1%, in comparison to December 31, 2014. The Corporation's shared national credits are to borrowers located in its geographical markets, and the increase was due to normal lending activities consistent with the Corporation's underwriting policies. As of September 30, 2015, two of the shared national credits, or 0.6% of the total balance, were past due. There were no shared national credits past due at December 31, 2014.

Construction loans include loans to commercial borrowers secured by commercial real estate, loans to commercial borrowers secured by residential real estate, and other construction loans, which represent loans to individuals secured by residential real estate. The following table presents outstanding construction loans and their delinquency rates by these class segments:

| | September 30, 2015 | | | December 31, 2014 | | |
|----------------------------------|------------------------|-------------------------|------------|-------------------|-------------------------|------------|
| | Balance | Delinquency Rate (1) | % of Total | Balance | Delinquency Rate (1) | % of Total |
| | (dollars in thousands) | | | | | |
| Commercial | \$521,866 | 0.5 | % 67.8 | % \$427,419 | 0.6 | % 61.9 |
| Commercial - residential | 190,521 | 7.4 | 24.8 | 203,670 | 6.6 | 29.5 |
| Other | 57,178 | 1.2 | 7.4 | 59,512 | 0.6 | 8.6 |
| Total Real estate - construction | \$769,565 | 2.3 | % 100.0 | % \$690,601 | 2.4 | % 100.0 |

(1) Represents all accruing loans 31 days or more past due and non-accrual loans as a percentage of total loans within each class segment.

Construction loans increased \$79.0 million, or 11.4%, in comparison to December 31, 2014 and comprised 5.7% of the total loan portfolio at September 30, 2015 as compared to 5.3% at December 31, 2014. The increase in construction loans was primarily in loans secured by commercial real estate. Geographically, the increase in real estate construction loans was primarily in the Pennsylvania (\$94.7 million, or 26.1%) and New Jersey (\$43.9 million, or 48.3%) markets, partially offset by decreases in the Virginia (\$27.5 million, or 30.4%), Maryland (\$23.8 million, or 27.5%) and Delaware (\$8.3 million, or 13.8%) markets.

Leasing and other loans increased \$30.3 million, or 25.4%, in comparison to December 31, 2014 as a result of new products and services being added during 2015 and a focus on growing this portfolio.

Home equity loans decreased \$43.0 million, or 2.5%, primarily as a result of customers refinancing outstanding home equity loans into residential mortgages.

Provision for Credit Losses and Allowance for Credit Losses

The following table presents the activity in the allowance for credit losses:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---------------------------------|--------------|--------------------------------|--------------|
| | 2015 | 2014 | 2015 | 2014 |
| | (dollars in thousands) | | | |
| Average balance of loans, net of unearned income | \$13,369,874 | \$12,922,821 | \$13,220,339 | \$12,827,563 |
| Balance of allowance for credit losses at beginning of period | \$169,453 | \$193,442 | \$185,931 | \$204,917 |
| Loans charged off: | | | | |
| Commercial – industrial, financial and agricultural | 1,640 | 5,167 | 14,669 | 15,804 |
| Real estate – residential mortgage | 1,035 | 231 | 3,099 | 2,166 |
| Real estate – home equity | 940 | 1,492 | 2,578 | 4,377 |
| Real estate – commercial mortgage | 660 | 1,557 | 3,011 | 5,084 |
| Consumer | 650 | 538 | 1,787 | 1,738 |
| Real estate – construction | 114 | 313 | 201 | 745 |
| Leasing and other | 522 | 306 | 1,352 | 1,434 |
| Total loans charged off | 5,561 | 9,604 | 26,697 | 31,348 |
| Recoveries of loans previously charged off: | | | | |
| Commercial – industrial, financial and agricultural | 1,598 | 1,013 | 3,855 | 2,532 |
| Real estate – residential mortgage | 201 | 95 | 547 | 319 |
| Real estate – home equity | 304 | 336 | 744 | 869 |
| Real estate – commercial mortgage | 842 | 1,167 | 1,729 | 1,641 |
| Consumer | 314 | 448 | 923 | 1,059 |
| Real estate – construction | 898 | 470 | 2,276 | 852 |
| Leasing and other | 346 | 241 | 587 | 767 |
| Total recoveries | 4,503 | 3,770 | 10,661 | 8,039 |
| Net loans charged off | 1,058 | 5,834 | 16,036 | 23,309 |
| Provision for credit losses | 1,000 | 3,500 | (500) | 9,500 |
| Balance of allowance for credit losses at end of period | \$169,395 | \$191,108 | \$169,395 | \$191,108 |

Net charge-offs to average loans (annualized) 0.03 % 0.18 % 0.16 % 0.24 %

The following table presents the components of the allowance for credit losses:

| | September 30, 2015 | December 31, 2014 |
|--|------------------------|-------------------|
| | (dollars in thousands) | |
| Allowance for loan losses | \$167,136 | \$184,144 |
| Reserve for unfunded lending commitments | 2,259 | 1,787 |
| Allowance for credit losses | \$169,395 | \$185,931 |
| Allowance for credit losses to loans outstanding | 1.25 | % 1.42 |

The provision for credit losses for the three months ended September 30, 2015 was \$1.0 million, a decrease of \$2.5 million in comparison to the same period in 2014. For the nine months ended September 30, 2015, the provision for credit losses was a negative \$500,000, a decrease of \$10.0 million compared to the same period in 2014. The decrease in the provision for credit losses was based on the evaluation of all relevant credit quality factors and the results of the allowance for credit losses allocation methodology.

Net charge-offs decreased \$4.8 million, or 81.9%, to \$1.1 million for the third quarter of 2015, compared to \$5.8 million for the third quarter of 2014. The decrease in net charge-offs was primarily due to a \$4.1 million decrease in commercial loan net charge-

offs. Of the \$1.1 million of net charge-offs recorded in the third quarter of 2015, the majority were for loans originated in Pennsylvania.

During the first nine months of 2015, net charge-offs decreased \$7.3 million, or 31.2%, to \$16.0 million, compared to \$23.3 million for the first nine months of 2014. The decrease in net charge-offs was primarily due to a \$2.5 million, or 18.5%, decrease in commercial loan net charge-offs, a \$2.2 million, or 62.8%, decrease in commercial mortgage net charge-offs, a \$2.0 million decrease in real estate construction net charge-offs and a \$1.7 million, or 47.7%, decrease in home equity net charges-offs, partially offset by a \$705,000, or 38.2%, increase in residential mortgage net charge-offs. Of the \$16.0 million of net charge-offs recorded in the first nine months of 2015, the majority were for loans originated in Pennsylvania and New Jersey.

The following table summarizes non-performing assets as of the indicated dates:

| | September 30, 2015 | September 30, 2014 | December 31, 2014 | | |
|---|------------------------|-----------------------|----------------------|--|---|
| | (dollars in thousands) | | | | |
| Non-accrual loans | \$ 132,154 | \$ 126,420 | \$ 121,080 | | |
| Loans 90 days or more past due and accruing | 12,867 | 17,428 | 17,402 | | |
| Total non-performing loans | 145,021 | 143,848 | 138,482 | | |
| Other real estate owned (OREO) | 10,561 | 13,489 | 12,022 | | |
| Total non-performing assets | \$ 155,582 | \$ 157,337 | \$ 150,504 | | |
| Non-accrual loans to total loans | 0.98 | % 0.97 | % 0.92 | | % |
| Non-performing assets to total assets | 0.87 | % 0.91 | % 0.88 | | % |
| Allowance for credit losses to non-performing loans | 116.81 | % 132.85 | % 134.26 | | % |

The following table presents accruing loans whose terms have been modified under troubled debt restructurings ("TDRs"), by type, as of the indicated dates:

| | September 30, 2015 | September 30, 2014 | December 31, 2014 |
|---|-----------------------|-----------------------|----------------------|
| | (in thousands) | | |
| Real estate – residential mortgage | \$29,330 | \$30,850 | \$31,308 |
| Real estate – commercial mortgage | 17,282 | 18,869 | 18,822 |
| Real estate – construction | 4,363 | 9,251 | 9,241 |
| Commercial – industrial, financial and agricultural | 7,399 | 5,115 | 5,237 |
| Real estate – home equity | 3,954 | 2,904 | 2,975 |
| Consumer | 29 | 23 | 38 |
| Total accruing TDRs | 62,357 | 67,012 | 67,621 |
| Non-accrual TDRs (1) | 27,618 | 27,724 | 24,616 |
| Total TDRs | \$89,975 | \$94,736 | \$92,237 |

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

TDRs modified during the first nine months of 2015 and still outstanding as of September 30, 2015 totaled \$16.1 million. During the first nine months of 2015, \$5.0 million of TDRs that were modified within the previous 12 months had a payment default, which the Corporation defines as a single missed scheduled payment, subsequent to modification.

The following table presents the changes in non-accrual loans for the three and nine months ended September 30, 2015:

| | 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 |
|--|--|---------------------------------------|-----------------------------|---|------------------------------------|----------|---------|-----------|
| Three months ended September 30, 2015 | | | | | | | | |
| Balance of non-accrual loans at June 30, 2015 | \$35,109 | \$ 47,985 | \$ 14,468 | \$ 21,611 | \$ 9,979 | \$— | \$— | \$129,152 |
| Additions | 9,960 | 4,109 | 1,488 | 2,768 | 2,516 | 650 | 149 | 21,640 |
| Payments | (5,187) | (2,411) | (1,269) | (938) | (766) | — | — | (10,571) |
| Charge-offs | (1,640) | (660) | (114) | (1,035) | (940) | (650) | (149) | (5,188) |
| Transfers to accrual status | — | — | — | (136) | (60) | — | — | (196) |
| Transfers to OREO | (1,689) | (196) | — | (293) | (505) | — | — | (2,683) |
| Balance of non-accrual loans at September 30, 2015 | \$36,553 | \$ 48,827 | \$ 14,573 | \$ 21,977 | \$ 10,224 | \$— | \$— | \$132,154 |
| Nine months ended September 30, 2015 | | | | | | | | |
| Balance of non-accrual loans as of December 31, 2014 | \$29,769 | \$ 44,437 | \$ 16,348 | \$ 20,043 | \$ 10,483 | \$— | \$— | \$121,080 |
| Additions | 37,661 | 22,047 | 3,966 | 9,737 | 6,110 | 1,789 | 506 | 81,816 |
| Payments | (13,827) | (13,710) | (5,540) | (2,373) | (1,464) | (2) | — | (36,916) |
| Charge-offs | (14,669) | (3,011) | (201) | (3,099) | (2,578) | (1,787) | (506) | (25,851) |
| Transfers to accrual status | — | (44) | — | (440) | (524) | — | — | (1,008) |
| Transfers to OREO | (2,381) | (892) | — | (1,891) | (1,803) | — | — | (6,967) |
| Balance of non-accrual loans at September 30, 2015 | \$36,553 | \$ 48,827 | \$ 14,573 | \$ 21,977 | \$ 10,224 | \$— | \$— | \$132,154 |

Non-accrual loans increased \$5.7 million, or 4.5%, and \$11.1 million, or 9.1%, in comparison to September 30, 2014 and December 31, 2014, respectively.

The following table summarizes non-performing loans, by type, as of the indicated dates:

| | September 30, 2015 (in thousands) | September 30, 2014 | December 31, 2014 |
|-----------------------------------|---|-----------------------|----------------------|
| Real estate – commercial mortgage | \$49,021 | \$44,602 | \$45,237 |

Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

| | | | |
|---|-----------|-----------|-----------|
| Commercial – industrial, financial and agricultural | 38,032 | 33,277 | 30,388 |
| Real estate – residential mortgage | 27,707 | 28,135 | 28,995 |
| Real estate – construction | 14,989 | 19,860 | 16,399 |
| Real estate – home equity | 13,107 | 15,071 | 14,740 |
| Consumer | 2,079 | 2,515 | 2,590 |
| Leasing | 86 | 388 | 133 |
| Total non-performing loans | \$145,021 | \$143,848 | \$138,482 |

Non-performing loans increased \$1.2 million, or 0.8%, in comparison to September 30, 2014. Non-performing commercial loans increased \$4.8 million, or 14.3%, and non-performing commercial mortgages increased \$4.4 million, or 9.9%, while non-performing construction loans decreased \$4.9 million, or 24.5%, and non-performing home equity loans decreased \$2.0 million, or 13.0%, in comparison to September 30, 2014.

The following table summarizes the Corporation's OREO, by property type, as of the indicated dates:

| | September 30, 2015 | September 30, 2014 | December 31, 2014 |
|------------------------|-----------------------|-----------------------|----------------------|
| | (in thousands) | | |
| Residential properties | \$6,934 | \$8,121 | \$6,656 |
| Commercial properties | 1,584 | 3,758 | 3,453 |
| Undeveloped land | 2,043 | 1,610 | 1,913 |
| Total OREO | \$10,561 | \$13,489 | \$12,022 |

The Corporation's ability to identify potential problem loans in a timely manner is important 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. The evaluation of credit risk for residential mortgages, home equity loans, construction loans to individuals, consumer loans and lease receivables is based on payment history, through the monitoring of delinquency levels and trends. For a description of the Corporation's risk ratings, see Note 5, "Loans and Allowance for Credit Losses," in the Notes to Consolidated Financial Statements.

Total internally risk rated loans were \$10.0 billion as of September 30, 2015 and \$9.6 billion as of December 31, 2014. The following table presents internal risk ratings for commercial loans, commercial mortgages and construction loans to commercial borrowers with internal risk ratings of Special Mention (considered criticized loans) or Substandard or lower (considered classified loans), by class segment:

| | Special Mention | | Increase (decrease) | | Substandard or lower | | Increase (decrease) | | Total Criticized and Classified Loans | |
|---|------------------------|---------------------|---------------------|--------|----------------------|---------------------|---------------------|--------|---------------------------------------|---------------------|
| | September 30 2015 | December 31 2014 | \$ | % | September 30 2015 | December 31 2014 | \$ | % | September 30 2015 | December 31 2014 |
| | (dollars in thousands) | | | | | | | | | |
| Real estate - commercial mortgage | \$132,823 | \$127,302 | \$5,521 | 4.3 % | \$178,450 | \$170,837 | \$7,613 | 4.5 % | \$311,273 | \$298,139 |
| Commercial - secured | 97,617 | 120,584 | (22,967) | (19.0) | 105,820 | 110,544 | (4,724) | (4.3) | 203,437 | 231,120 |
| Commercial - unsecured | 3,568 | 7,463 | (3,895) | (52.2) | 4,805 | 6,810 | (2,005) | (29.4) | 8,373 | 14,273 |
| Total Commercial - industrial, financial and agricultural | 101,185 | 128,047 | (26,862) | (21.0) | 110,625 | 117,354 | (6,729) | (5.7) | 211,810 | 245,400 |
| Construction - commercial residential | 16,763 | 27,495 | (10,732) | (39.0) | 29,429 | 40,066 | (10,637) | (26.5) | 46,192 | 67,561 |
| Construction - commercial | 1,693 | 12,202 | (10,509) | (86.1) | 5,204 | 5,586 | (382) | (6.8) | 6,897 | 17,788 |
| | 18,456 | 39,697 | (21,241) | (53.5) | 34,633 | 45,652 | (11,019) | (24.1) | 53,089 | 85,349 |

Total real
estate -
construction
(excluding
construction
- other)

| | | | | | | | | | | |
|-------|-----------|-----------|------------|---------|-----------|-----------|------------|---------|-----------|---------|
| Total | \$252,464 | \$295,046 | \$(42,582) | (14.4)% | \$323,708 | \$333,843 | \$(10,135) | (3.0)% | \$576,172 | \$628,8 |
|-------|-----------|-----------|------------|---------|-----------|-----------|------------|---------|-----------|---------|

% of total
risk rated
loans

| | | | | | | | | | | |
|-----|---|-----|---|-----|---|-----|---|-----|---|-----|
| 2.5 | % | 3.1 | % | 3.3 | % | 3.5 | % | 5.8 | % | 6.6 |
|-----|---|-----|---|-----|---|-----|---|-----|---|-----|

The following table summarizes loan delinquency rates, by type, as of the dates indicated:

| | September 30, 2015 | | | September 30, 2014 | | | December 31, 2014 | | | |
|---|--------------------|---------------|-----------|--------------------|---------------|-----------|-------------------|---------------|-----------|---|
| | 31-89 Days | ≥ 90 Days (1) | Total | 31-89 Days | ≥ 90 Days (1) | Total | 31-89 Days | ≥ 90 Days (1) | Total | |
| Real estate – commercial mortgage | 0.16 | % 0.92 | % 1.08 | % 0.48 | % 0.86 | % 1.34 | % 0.35 | % 0.87 | % 1.22 | % |
| Commercial – industrial, financial and agricultural | 0.35 | % 0.97 | % 1.32 | % 0.28 | % 0.91 | % 1.19 | % 0.17 | % 0.81 | % 0.98 | % |
| Real estate – construction | 0.30 | % 1.95 | % 2.25 | % 0.03 | % 2.89 | % 2.92 | % 0.02 | % 2.38 | % 2.40 | % |
| Real estate – residential mortgage | 1.27 | % 2.00 | % 3.27 | % 1.81 | % 2.06 | % 3.87 | % 1.96 | % 2.10 | % 4.06 | % |
| Real estate – home equity | 0.54 | % 0.77 | % 1.31 | % 0.59 | % 0.87 | % 1.46 | % 0.63 | % 0.85 | % 1.48 | % |
| Consumer, leasing and other | 1.30 | % 0.51 | % 1.81 | % 1.41 | % 0.75 | % 2.16 | % 1.56 | % 0.70 | % 2.26 | % |
| Total | 0.42 | % 1.07 | % 1.49 | % 0.58 | % 1.11 | % 1.69 | % 0.52 | % 1.06 | % 1.58 | % |
| Total dollars (in thousands) | \$56,694 | \$145,021 | \$201,715 | \$75,976 | \$143,848 | \$219,824 | \$68,346 | \$138,482 | \$206,828 | |

(1) Includes non-accrual loans.

Management believes that the allowance for credit losses of \$169.4 million as of September 30, 2015 is sufficient to cover incurred losses in both the loan portfolio and the unfunded lending commitments as of that date and is appropriate based on applicable accounting standards.

Deposits and Borrowings

The following table presents ending deposits, by type:

| | September 30, 2015 | December 31, 2014 | Increase (Decrease) | | |
|----------------------------|--------------------|-------------------|---------------------|-------|---|
| | | | \$ | % | |
| Noninterest-bearing demand | \$3,906,228 | \$3,640,623 | \$265,605 | 7.3 | % |
| Interest-bearing demand | 3,362,336 | 3,150,612 | 211,724 | 6.7 | |
| Savings | 3,880,103 | 3,504,820 | 375,283 | 10.7 | |
| Total demand and savings | 11,148,667 | 10,296,055 | 852,612 | 8.3 | |
| Time deposits | 2,935,727 | 3,071,451 | (135,724) | (4.4) |) |
| Total deposits | \$14,084,394 | \$13,367,506 | \$716,888 | 5.4 | % |

Non-interest bearing demand deposits increased \$265.6 million, or 7.3%, primarily as a result of increases in business account balances of \$256.0 million, or 9.3%, and municipal account balances of \$12.6 million, or 12.6%.

Interest-bearing demand accounts increased \$211.7 million, or 6.7%, due to a \$188.6 million, or 15.8%, seasonal increase in municipal account balances and a \$25.9 million, or 20.3%, increase in business account balances. The \$375.3 million, or 10.7%, increase in savings account balances was primarily due to a \$205.6 million, or 9.4%, increase in personal account balances, a seasonal increase of \$91.3 million, or 15.9%, in municipal account balances and a \$78.3 million, or 10.6%, increase in business account balances. The \$135.7 million, or 4.4%, decrease in time deposits was primarily due to a decrease in time deposits with original maturities of less than two years.

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

| | September 30, 2015 | December 31, 2014 | Increase (Decrease) | |
|--------------------------------------|-----------------------|----------------------|---------------------|---------|
| | | | \$ | % |
| (dollars in thousands) | | | | |
| Short-term borrowings: | | | | |
| Customer repurchase agreements | \$ 145,225 | \$ 158,394 | \$(13,169) | (8.3)% |
| Customer short-term promissory notes | 80,879 | 95,106 | (14,227) | (15.0)% |
| Total short-term customer funding | 226,104 | 253,500 | (27,396) | (10.8)% |
| Federal funds purchased | 5,527 | 6,219 | (692) | (11.1)% |
| Short-term FHLB advances (1) | 200,000 | 70,000 | 130,000 | 185.7% |
| Total short-term borrowings | 431,631 | 329,719 | 101,912 | 30.9% |
| Long-term debt: | | | | |
| FHLB advances | 617,790 | 673,107 | (55,317) | (8.2)% |
| Other long-term debt | 361,643 | 466,306 | (104,663) | (22.4)% |
| Total long-term debt | 979,433 | 1,139,413 | (159,980) | (14.0)% |
| Total borrowings | \$ 1,411,064 | \$ 1,469,132 | \$(58,068) | (4.0)% |

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

The \$101.9 million increase in total short-term borrowings was largely due to a \$130.0 million, or 185.7%, increase in short-term FHLB advances. The \$55.3 million decrease in long-term FHLB advances resulted from maturities that were replaced with short-term advances. Other long-term debt decreased by \$104.7 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 to redeem \$150 million of TruPS, that carried an effective rate of 6.52%, in July 2015.

Shareholders' Equity

Total shareholders' equity increased \$29.2 million, or 1.5%, during the first nine months of 2015. The increase was due primarily to \$111.0 million of net income partially offset by \$47.5 million of common stock dividends and \$50.0 million in treasury stock purchases.

The Corporation and its subsidiary banks are subject to regulatory capital requirements administered by various banking regulators. Failure to meet minimum capital requirements could result in certain actions by regulators that could have a material effect on the Corporation's financial statements. In July 2013, the Federal Reserve Board 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.
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.

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 expands 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.

As of September 30, 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 September 30, 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.

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

| | September 30, 2015 | December 31, 2014 | Regulatory Minimum for Capital Adequacy | |
|--|-----------------------|----------------------|--|---|
| Common Equity Tier I (to Risk-Weighted Assets) | 10.8 | % N/A | 4.5 | % |
| Total Capital (to Risk-Weighted Assets) | 13.8 | % 14.7 | % 8.0 | % |
| Tier I Capital (to Risk-Weighted Assets) | 10.8 | % 12.3 | % 6.0 | % |
| Tier I Capital (to Average Assets) | 9.4 | % 10.0 | % 4.0 | % |

The September 30, 2015 capital ratios presented above were determined in accordance with the Basel III Capital Rules while the December 31, 2014 capital ratios were calculated under the prior capital standards. The impact of transitioning to the Basel III Capital Rules was a decrease of approximately 45 basis points in the risk-based capital ratios, primarily as a result of the changes in risk-weightings.

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, may need credit availability. Liquidity is provided on a continuous basis through scheduled and unscheduled principal and interest payments on outstanding loans and investments 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 September 30, 2015, the Corporation had \$817.8 million of short and long-term advances outstanding from the FHLB with an additional borrowing capacity of approximately \$2.1 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 September 30, 2015, the Corporation had aggregate availability under Federal funds lines of \$1.2 billion with no borrowings outstanding on those lines. As of September 30, 2015, the Corporation had a repurchase agreement relationship with a community bank, with a balance of \$5.5 million, classified as Federal funds purchased. 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 September 30, 2015, the Corporation had \$1.3 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 the first nine months of 2015 generated \$134.9 million of cash, mainly due to net income, partially offset by the impact of non-cash expenses, most notably a net increase in loans held for sale and investment securities gains. Cash used in investing activities was \$714.5 million, due to net increases in loans, short-term investments, and investment securities. Net cash provided by financing activities was \$567.7 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.

Item 3. 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, only equity market price risk, debt security market price risk and interest rate risk are significant to the Corporation.

Equity Market Price Risk

Equity market price risk is the risk that changes in the values of equity investments could have a material impact on the financial position or results of operations of the Corporation. As of September 30, 2015, equity investments consisted of \$22.4 million of common stocks of publicly traded financial institutions and \$1.1 million of other equity investments.

The equity investments most susceptible to equity market price risk are the financial institutions stocks, which had a cost basis of approximately \$15.1 million and a fair value of \$22.4 million at September 30, 2015, including an investment in a single financial institution with a cost basis of \$8.5 million and a fair value of \$12.8 million. The fair value of this investment accounted for 57.1% of the fair value of the common stocks of publicly traded financial institutions. No other investment in a single financial institution within the financial institutions stock portfolio exceeded 5% of the portfolio's fair value. As of September 30, 2015, the financial institutions stock portfolio had \$7.3 million of net unrealized gains.

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. 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 September 30, 2015, the Corporation owned municipal securities issued by various municipalities with a total fair value of \$240.2 million. 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 September 30, 2015, approximately 95% of municipal securities were supported by the general obligation of corresponding municipalities. Approximately 83% of these securities were school district issuances, which are also supported by the states of the issuing municipalities.

Auction Rate Certificates

As of September 30, 2015, the Corporation's investments in student loan auction rate certificates (ARCs), had a cost basis of \$106.7 million and a fair value of \$97.9 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, since early 2008, market auctions for these securities failed due to an insufficient number of buyers, resulting in an illiquid market. Therefore, as of September 30, 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 that were materially different from those that would be expected from settlement of these investments in the current market. The expected cash flows model,

prepared by a third-party valuation expert, produced fair values that 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 ARCs is also a factor in the determination of their estimated fair value. As of September 30, 2015, all of the ARCs were rated above investment grade, with approximately \$5 million, or 6%, "AAA" rated and \$92 million, or 94%, "AA" rated. All of the loans underlying the ARCs have principal payments that are guaranteed by the federal government. As of September 30, 2015, all ARCs were current and making scheduled interest payments.

Corporate Debt Securities Issued by Financial Institutions

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 presented in the following table as of September 30, 2015:

| | Amortized cost (in thousands) | Estimated fair value |
|--|-------------------------------------|-------------------------|
| Single-issuer trust preferred securities | \$46,624 | \$41,787 |
| Subordinated debt | 51,625 | 53,576 |
| Pooled trust preferred securities | — | 530 |
| Corporate debt securities issued by financial institutions | \$98,249 | \$95,893 |

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.

The Corporation's investments in single-issuer trust preferred securities had an unrealized loss of \$4.8 million at September 30, 2015. The Corporation did not record any other-than-temporary impairment charges for single-issuer trust preferred securities during the three and nine months ended September 30, 2015 or 2014. Seven of the Corporation's 19 single-issuer trust preferred securities were rated below investment grade by at least one ratings agency, with an amortized cost of \$14.5 million and an estimated fair value of \$13.2 million as of September 30, 2015. All of the single-issuer trust preferred securities rated below investment grade were rated "BB" or "Ba". Single-issuer trust preferred securities with an amortized cost of \$3.7 million and an estimated fair value of \$2.7 million at September 30, 2015 were not rated by any ratings agency.

As of September 30, 2015, the Corporation held two pooled trust preferred securities with an amortized cost of \$0 and an estimated fair value of \$530,000, that were rated below investment grade by at least one ratings agency. The class of securities held by the Corporation was below the most senior tranche, with the Corporation's interests being subordinate to other investors in the pool.

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 flows model. The most significant input to the expected cash flows model was 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.

See Note 13, "Fair Value Measurements," in the Notes to Consolidated Financial Statements for further discussion related to the fair values of debt securities.

Interest Rate Risk, Asset/Liability Management and Liquidity

Interest rate risk creates exposure in two primary areas. First, changes in rates have an impact on the Corporation's liquidity position and could affect its ability to meet obligations and continue to grow. Second, movements in interest rates can create fluctuations in the Corporation's net interest income and changes in the economic value of its equity. The Corporation employs various management techniques to minimize its exposure to interest rate risk. An Asset/Liability Management Committee ("ALCO"), consisting of key financial and senior management personnel, meets on a regular basis. The 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.

From a liquidity standpoint, 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, may need credit availability. Liquidity is provided on a continuous basis through scheduled and unscheduled principal and interest payments on outstanding loans and investments 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 following table provides information about the Corporation's interest rate sensitive financial instruments as of September 30, 2015. The table presents expected cash flows and weighted average rates for each of the Corporation's significant interest rate sensitive financial instruments, by expected maturity period. None of the Corporation's financial instruments are classified as trading. All dollar amounts are in thousands.

| | Expected Maturity Period | | | | | | | Total | Estimated Fair Value |
|-------------------------------|--------------------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|----------------------|
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Beyond | | | |
| Fixed rate loans (1) | \$975,597 | \$484,581 | \$350,691 | \$380,102 | \$239,651 | \$678,863 | \$3,109,485 | \$3,000,000 | |
| Average rate | 3.60 | % 4.20 | % 4.07 | % 4.43 | % 4.32 | % 3.61 | % 3.90 | % | |
| Floating rate loans (1) (2) | 2,392,556 | 1,597,191 | 1,293,230 | 1,095,874 | 1,069,244 | 2,976,168 | 10,424,263 | 10,300,000 | |
| Average rate | 3.66 | % 3.76 | % 3.79 | % 3.81 | % 3.77 | % 3.71 | % 3.73 | % | |
| Fixed rate investments (3) | 435,564 | 324,117 | 252,653 | 223,718 | 215,175 | 800,264 | 2,251,491 | 2,260,000 | |
| Average rate | 2.80 | % 2.83 | % 2.69 | % 2.58 | % 2.49 | % 2.59 | % 2.67 | % | |
| Floating rate investments (3) | 4,985 | 4,972 | 106,681 | 22 | — | 40,166 | 156,826 | 143,000 | |
| Average rate | 1.04 | % 1.90 | % 1.90 | % 2.00 | % — | % 1.50 | % 1.77 | % | |
| Other interest-earning assets | 537,880 | — | — | — | — | 68,977 | 606,857 | 606,000 | |
| Average rate | 0.36 | % — | % — | % — | % — | % 5.03 | % 0.89 | % | |
| Total | \$4,346,582 | \$2,410,861 | \$2,003,255 | \$1,699,716 | \$1,524,070 | \$4,564,438 | \$16,548,922 | \$16,000,000 | |
| Average rate | 3.15 | % 3.72 | % 3.60 | % 3.79 | % 3.68 | % 3.50 | % 3.50 | % | |
| Fixed rate deposits (4) | \$1,216,409 | \$501,015 | \$257,453 | \$364,496 | \$258,021 | \$24,697 | \$2,622,091 | \$2,600,000 | |
| Average rate | 0.60 | % 1.10 | % 1.39 | % 2.03 | % 2.05 | % 1.94 | % 1.13 | % | |
| Floating rate deposits (5) | 5,342,016 | 856,561 | 552,477 | 310,183 | 284,762 | 210,076 | 7,556,075 | 7,540,000 | |
| Average rate | 0.17 | % 0.11 | % 0.10 | % 0.08 | % 0.08 | % 0.13 | % 0.15 | % | |
| Fixed rate borrowings (6) | 31,297 | 351,638 | 668 | 130,533 | 157,947 | 290,854 | 962,937 | 996,000 | |
| Average rate | 1.69 | % 4.51 | % 4.65 | % 2.12 | % 2.78 | % 4.31 | % 3.75 | % | |
| | 431,632 | — | — | — | — | 16,496 | 448,128 | 438,000 | |

Floating rate borrowings (7)

| | | | | | | | | |
|--------------|-------------|-------------|-----------|-----------|-----------|-----------|--------------|--------------|
| Average rate | 0.05 | % — | % — | % — | % — | % 2.46 | % 0.14 | % |
| Total | \$7,021,354 | \$1,709,214 | \$810,598 | \$805,212 | \$700,730 | \$542,123 | \$11,589,231 | \$11,589,231 |
| Average rate | 0.24 | % 1.30 | % 0.51 | % 1.30 | % 1.41 | % 2.53 | % 0.67 | % |

(1) Amounts are based on contractual payments and maturities, adjusted for expected prepayments. Excludes \$2.6 million of overdraft deposit balances.

(2) Line of credit amounts are based on historical cash flows, with an average life of approximately 5 years.

(3) Amounts are based on contractual maturities; adjusted for expected prepayments on mortgage-backed securities and collateralized mortgage obligations and expected calls on agency and municipal securities. Excludes equity securities as such investments do not have maturity dates.

(4) Amounts are based on contractual maturities of time deposits.

(5) Estimated based on history of deposit flows.

(6) Amounts are based on contractual maturities of debt instruments, adjusted for possible calls. Amounts also include junior subordinated deferrable interest debentures.

(7) Amounts include Federal Funds purchased, short-term promissory notes and securities sold under agreements to repurchase, which mature in less than 90 days, in addition to junior subordinated deferrable interest debentures.

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

Included within the \$10.4 billion of floating rate loans above are \$3.3 billion of loans, or 31.9% of the total, that float with the prime interest rate, \$2.3 billion, or 22.1%, of loans that float with other interest rates, primarily the London Interbank Offered Rate ("LIBOR"), and \$4.8 billion, or 46.0%, of adjustable rate loans. The \$4.8 billion of adjustable rate loans include loans that are fixed rate instruments for a certain period of time, and then convert to floating rates.

The following table presents the percentage of adjustable rate loans, at September 30, 2015, stratified by the period until their next repricing:

| | Percent of Total Adjustable Rate Loans |
|-------------------------|--|
| One year | 33.4% |
| Two years | 17.9 |
| Three years | 17.4 |
| Four years | 12.9 |
| Five years | 11.1 |
| Greater than five years | 7.3 |

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 twelve-month period. A variety of interest rate scenarios are used to measure the effects of sudden and gradual movements upward and downward in the yield curve. These results are compared to the results obtained in a flat or unchanged interest rate scenario. Simulation of 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 account for competitive pricing over the forward 12-month period.

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 |
|----------------|---|----------|
| +300 bp | + \$ 65.5 million | +13.3% |
| +200 bp | + \$ 42.2 million | +8.6 |
| +100 bp | + \$ 18.4 million | +3.7 |
| -100 bp | - \$ 16.3 million | -3.3 |

(1) The inclusion of only one -100 bp rate shock reflects the effect of implicit and explicit floors that limit further reduction in interest rates.

Economic value of equity estimates the discounted present value of asset cash flows and liability cash flows. Discount rates are based upon market prices for like assets and liabilities. 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 September 30, 2015, the Corporation was within policy limits for every 100 basis point shock.

Item 4. Controls and Procedures

The Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures pursuant to Rule 13a-15, promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this quarterly report, the Corporation's disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Corporation reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

There have been no changes in the Corporation's internal control over financial reporting during the fiscal quarter covered by this quarterly report that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. 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 banking 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 request for information. Although this matter appears to be at a preliminary stage, 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 banking 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 subsidiary banks undertake a number of required actions to strengthen and enhance the BSA/AML Compliance Program. Further information pertaining to the Consent Orders was previously disclosed by the Corporation in Part II, Item 9B of its Annual Report on Form 10-K and in its Form 10-K/A each for the year ended December 31, 2014 and filed with the SEC on February 27, 2015 and June 8, 2015, respectively; in its Form 10-Q for the quarter-ended March 31, 2015 filed with the SEC on May 11, 2015; and in Current Reports on Form 8-K filed with the SEC on July 18, September 9, and December 29, 2014.

As of the date of this report, the Corporation believes that any liabilities, individually or in the aggregate, which may result from the final outcomes of pending proceedings 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 1A. Risk Factors

There have been no material changes to the risk factors as previously disclosed in Part I, Item 1A of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table presents the Corporation's monthly repurchases of its common stock during the third quarter of 2015:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Approximate Dollar Value that May Yet Be Purchased Under the Plans or Programs |
|---|----------------------------------|------------------------------|--|--|
| July 1, 2015 to July 31, 2015 | 1,192,400 | \$ 12.74 | 1,192,400 | \$ 15,790,528 |
| August 1, 2015 to August 31, 2015 | 1,245,870 | \$ 12.67 | 1,245,870 | — |
| September 1, 2015 to September 31, 2015 | — | \$— | — | — |

On April 21, 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, 2015. Repurchased shares may be added to treasury stock, at cost. As permitted by securities laws and other legal requirements and subject to market conditions and other factors, purchases may be made from time to time in open market or privately negotiated transactions, including without limitation, through accelerated share repurchase transactions. The share repurchase program may be discontinued at any time. During the second quarter of 2015, 1.5 million shares had been repurchased under this program for a total cost of \$19.0 million, or \$12.36 per share. During the third quarter of 2015, the remaining \$31.0 million, or approximately 2.4 million shares at an average \$12.71 per share, were repurchased, completing this repurchase program.

No stock repurchases were made outside the programs and all repurchases were made in accordance with the guidelines of Rule 10b-18 and in compliance with Regulation M.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

See Exhibit Index for a list of the exhibits required by Item 601 of Regulation S-K and filed as part of this report.

FULTON FINANCIAL CORPORATION AND SUBSIDIARIES
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FULTON FINANCIAL CORPORATION

Date: November 6, 2015

/s/ E. Philip Wenger
E. Philip Wenger
Chairman, Chief Executive Officer and President

Date: November 6, 2015

/s/ Patrick S. Barrett
Patrick S. Barrett
Senior Executive Vice President and
Chief Financial Officer

EXHIBIT INDEX

Exhibits Required Pursuant
to Item 601 of Regulation S-K

- 3.1 Articles of Incorporation, as amended and restated, of Fulton Financial Corporation– Incorporated by reference to Exhibit 3.1 of the Fulton Financial Corporation Current Report on Form 8-K dated June 24, 2011.
 - 3.2 Bylaws of Fulton Financial Corporation as amended – Incorporated by reference to Exhibit 3.1 of the Fulton Financial Corporation Current Report on an Amended Form 8-K dated September 23, 2014.
 - 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
 - 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
 - 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Financial statements from the Quarterly Report on Form 10-Q of Fulton Financial Corporation for the period ended September 30, 2015, filed on November 6, 2015, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income (iv) the Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statement of Cash Flows and (vi) the Notes to Consolidated Financial Statements - filed herewith.