

FULTON FINANCIAL CORP
Form 10-Q
August 05, 2016

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 June 30, 2016, 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 17604

(Address of principal executive offices)

(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 –173,060,000 shares outstanding as of July 29, 2016.

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FULTON FINANCIAL CORPORATION
 FORM 10-Q FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016
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Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

(in thousands, except per-share data)

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Cash and due from banks	\$84,647	\$101,120
Interest-bearing deposits with other banks	348,232	230,300
Federal Reserve Bank and Federal Home Loan Bank stock	59,854	62,216
Loans held for sale	34,330	16,886
Available for sale investment securities	2,529,724	2,484,773
Loans, net of unearned income	14,155,159	13,838,602
Less: Allowance for loan losses	(162,546)	(169,054)
Net Loans	13,992,613	13,669,548
Premises and equipment	228,861	225,535
Accrued interest receivable	43,316	42,767
Goodwill and intangible assets	531,556	531,556
Other assets	626,902	550,017
Total Assets	\$18,480,035	\$17,914,718
LIABILITIES		
Deposits:		
Noninterest-bearing	\$4,125,375	\$3,948,114
Interest-bearing	10,167,189	10,184,203
Total Deposits	14,292,564	14,132,317
Short-term borrowings:		
Federal funds purchased	449,184	197,235
Other short-term borrowings	273,030	300,428
Total Short-Term Borrowings	722,214	497,663
Accrued interest payable	8,336	10,724
Other liabilities	384,372	282,578
Federal Home Loan Bank advances and long-term debt	965,552	949,542
Total Liabilities	16,373,038	15,872,824
SHAREHOLDERS' EQUITY		
Common stock, \$2.50 par value, 600 million shares authorized, 219.0 million shares issued in 2016 and 218.9 million shares issued in 2015	547,530	547,141
Additional paid-in capital	1,455,351	1,450,690
Retained earnings	686,635	641,588
Accumulated other comprehensive income (loss)	7,689	(22,017)
Treasury stock, at cost, 45.9 million shares in 2016 and 44.7 million shares in 2015	(590,208)	(575,508)
Total Shareholders' Equity	2,106,997	2,041,894
Total Liabilities and Shareholders' Equity	\$18,480,035	\$17,914,718

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per-share data)	Three months ended		Six months ended	
	June 30		June 30	
	2016	2015	2016	2015
INTEREST INCOME				
Loans, including fees	\$ 134,643	\$ 129,910	\$ 268,722	\$ 259,687
Investment securities:				
Taxable	11,159	10,944	23,162	22,226
Tax-exempt	2,320	1,881	4,360	3,968
Dividends	135	296	295	644
Loans held for sale	188	265	319	438
Other interest income	864	933	1,762	3,038
Total Interest Income	149,309	144,229	298,620	290,001
INTEREST EXPENSE				
Deposits	10,887	10,053	21,614	19,876
Short-term borrowings	217	103	485	180
Long-term debt	9,289	11,153	18,551	23,444
Total Interest Expense	20,393	21,309	40,650	43,500
Net Interest Income	128,916	122,920	257,970	246,501
Provision for credit losses	2,511	2,200	4,041	(1,500)
Net Interest Income After Provision for Credit Losses	126,405	120,720	253,929	248,001
NON-INTEREST INCOME				
Other service charges and fees	12,983	10,988	23,733	20,351
Service charges on deposit accounts	12,896	12,637	25,454	24,206
Investment management and trust services	11,247	11,011	22,235	21,900
Mortgage banking income	3,897	5,339	7,927	10,027
Investment securities gains, net	76	2,415	1,023	6,560
Other	5,038	4,099	8,902	8,182
Total Non-Interest Income	46,137	46,489	89,274	91,226
NON-INTEREST EXPENSE				
Salaries and employee benefits	70,029	65,067	139,401	130,057
Net occupancy expense	11,811	11,809	24,031	25,501
Other outside services	5,508	8,125	11,564	13,875
Data processing	5,476	4,894	10,876	9,662
Software	3,953	3,376	7,874	6,694
Professional fees	3,353	2,731	5,686	5,602
FDIC insurance expense	2,960	2,885	5,909	5,707
Equipment expense	2,872	3,335	6,243	7,293
Supplies and postage	2,706	2,726	5,285	5,095
Marketing	1,916	2,235	3,540	3,468
Telecommunications	1,459	1,617	2,947	3,333
Operating risk loss	986	674	1,526	1,501
Other real estate owned and repossession expense	365	129	1,003	1,491
Intangible amortization	—	106	—	236
Other	8,243	8,645	16,165	17,317
Total Non-Interest Expense	121,637	118,354	242,050	236,832
Income Before Income Taxes	50,905	48,855	101,153	102,395
Income taxes	11,155	12,175	23,146	25,679

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Net Income	\$39,750	\$36,680	\$78,007	\$76,716
PER SHARE:				
Net Income (Basic)	\$0.23	\$0.21	\$0.45	\$0.43
Net Income (Diluted)	0.23	0.21	0.45	0.43
Cash Dividends	0.10	0.09	0.19	0.18
See Notes to Consolidated Financial Statements				

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Net Income	\$39,750	\$36,680	\$78,007	\$76,716
Other Comprehensive Income (Loss), net of tax:				
Unrealized gain (loss) on securities	12,839	(12,008)	29,865	(2,016)
Reclassification adjustment for securities gains included in net income	(49)	(1,569)	(665)	(4,264)
Non-credit related unrealized gain on other-than-temporarily impaired debt securities	—	—	—	125
Amortization of unrealized loss on derivative financial instruments	4	34	8	68
Amortization of net unrecognized pension and postretirement items	32	466	498	932
Other Comprehensive Income (Loss)	12,826	(13,077)	29,706	(5,155)
Total Comprehensive Income	\$52,576	\$23,603	\$107,713	\$71,561

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2016 AND 2015

(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, 2015	174,176	\$547,141	\$1,450,690	\$641,588	\$ (22,017)	\$(575,508)	\$2,041,894
Net income				78,007			78,007
Other comprehensive income					29,706		29,706
Stock issued, including related tax benefits	273	389	1,405			1,554	3,348
Stock-based compensation awards			3,256				3,256
Acquisition of treasury stock	(1,310)					(16,254)	(16,254)
Common stock cash dividends - \$0.19 per share				(32,960)			(32,960)
Balance at June 30, 2016	173,139	\$547,530	\$1,455,351	\$686,635	\$ 7,689	\$(590,208)	\$2,106,997
Balance at December 31, 2014	178,924	\$545,555	\$1,420,523	\$558,810	\$ (17,722)	\$(510,501)	\$1,996,665
Net income				76,716			76,716
Other comprehensive loss					(5,155)		(5,155)
Stock issued, including related tax benefits	423	664	1,954			2,077	4,695
Stock-based compensation awards			2,838				2,838
Acquisition of treasury stock	(1,538)					(19,013)	(19,013)
Settlement of accelerated stock repurchase agreement	(1,790)		20,000			-(20,000)	—
Common stock cash dividends - \$0.18 per share				(31,929)			(31,929)
Balance at June 30, 2015	176,019	\$546,219	\$1,445,315	\$603,597	\$ (22,877)	\$(547,437)	\$2,024,817

See Notes to Consolidated
Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six months ended	
	June 30	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$78,007	\$76,716
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	4,041	(1,500)
Depreciation and amortization of premises and equipment	13,804	13,920
Net amortization of investment securities premiums	4,647	3,288
Investment securities gains, net	(1,023)	(6,560)
Gain on sales of mortgage loans held for sale	(7,110)	(7,961)
Proceeds from sales of mortgage loans held for sale	304,516	406,703
Originations of mortgage loans held for sale	(314,850)	(415,200)
Amortization of intangible assets	—	236
Amortization of issuance costs on long-term debt	193	279
Stock-based compensation	3,256	2,838
Excess tax benefits from stock-based compensation	(28)	(63)
(Increase) decrease in accrued interest receivable	(549)	625
(Increase) decrease in other assets	(18,268)	10,181
Decrease in accrued interest payable	(2,388)	(2,873)
Increase (decrease) in other liabilities	9,866	(3,322)
Total adjustments	(3,893)	591
Net cash provided by operating activities	74,114	77,307
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available for sale	84,972	18,815
Proceeds from maturities of securities available for sale	282,832	205,620
Purchase of securities available for sale	(355,220)	(346,322)
(Increase) decrease in short-term investments	(115,570)	35,759
Net increase in loans	(326,902)	(147,492)
Net purchases of premises and equipment	(17,130)	(14,687)
Net cash used in investing activities	(447,018)	(248,307)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand and savings deposits	202,552	205,901
Net decrease in time deposits	(42,305)	(67,698)
Increase in short-term borrowings	224,551	79,316
Additions to long-term debt	16,000	148,099
Repayments of long-term debt	(183)	(155,150)
Net proceeds from issuance of common stock	3,320	4,632
Excess tax benefits from stock-based compensation	28	63
Dividends paid	(31,278)	(30,397)
Acquisition of treasury stock	(16,254)	(19,013)
Net cash provided by financing activities	356,431	165,753
Net Decrease in Cash and Due From Banks	(16,473)	(5,247)
Cash and Due From Banks at Beginning of Period	101,120	105,702
Cash and Due From Banks at End of Period	\$84,647	\$100,455
Supplemental Disclosures of Cash Flow Information:		

Cash paid during the period for:

Interest	\$43,038	\$46,373
Income taxes	9,087	11,051

See Notes to Consolidated Financial Statements

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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, 2015. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The Corporation evaluates subsequent events through the date of filing of this Form 10-Q with the Securities and Exchange Commission ("SEC").

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASC Update 2014-09, "Revenue from Contracts with Customers." This standards update establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle prescribed by this standards update is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard applies to all contracts with customers, except those that are within the scope of other topics in the FASB ASC. The standard also requires significantly expanded disclosures about revenue recognition. During the first half of 2016, the FASB issued amendments to this standard (ASC Updates 2016-08, 2016-10, 2016-11 and 2016-12). These amendments provide further clarification to the standard. For public business entities, ASC Update 2014-09 is effective for interim and annual reporting periods beginning after December 15, 2017. Early application is not permitted. For the Corporation, this standards update is effective with its March 31, 2018 quarterly report on Form 10-Q. The Corporation is currently evaluating the impact of the adoption of ASC Update 2014-09 on its consolidated financial statements.

In January 2016, the FASB issued ASC Update 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." ASC Update 2016-01 provides guidance regarding the income statement impact of equity investments held by an entity and the recognition of changes in fair value of financial liabilities when the fair value option is elected. ASC Update 2016-01 is effective for public business entities' annual and interim reporting periods beginning after December 15, 2017, with earlier adoption permitted. The Corporation intends to adopt this standards update effective with its March 31, 2018 quarterly report on Form 10-Q and does not expect the adoption of ASC Update 2016-01 to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASC Update 2016-02, "Leases." This standards update states that a lessee should recognize the assets and liabilities that arise from all leases with a term greater than 12 months. The core principle requires the lessee to recognize a liability to make lease payments and a "right-of-use" asset. The accounting applied

by the lessor is relatively unchanged. The standards update also requires expanded qualitative and quantitative disclosures. For public business entities, ASC Update 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018. ASC Update 2016-02 mandates a modified retrospective transition for all entities. Early application is permitted. For the Corporation, this standards update is effective with its March 31, 2019 quarterly report on Form 10-Q. The Corporation is currently evaluating the impact of the adoption of ASC Update 2016-02 on its consolidated financial statements.

In March 2016, the FASB issued ASC Update 2016-09, "Stock Compensation: Improvements to Employee Share-Based Payment Accounting." The purpose of this standards update is to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liability, and classification on the statement of cash flows. ASC Update 2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016. Early application is permitted. For the Corporation, this standards update is effective with its March 31, 2017 quarterly report on Form 10-Q. The Corporation is currently evaluating the impact of the adoption of ASC Update 2016-09 on its consolidated financial statements.

In June 2016, the FASB issued ASC Update 2016-13, "Financial Instruments - Credit Losses." The new impairment model prescribed by this standards update is a single impairment model for all financial assets (i.e., loans and investments). The recognition of credit losses would be based on an entity's current estimate of expected losses (referred to as the Current Expected Credit Loss model, or "CECL"), as opposed to recognition of losses only when they are probable (current practice). ASC Update 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted. For the Corporation, this standards update is effective with its March 31, 2020 quarterly report on Form 10-Q. The Corporation is currently evaluating the impact of the adoption of ASC Update 2016-13 on its consolidated financial statements.

Reclassifications

Certain amounts in the 2015 consolidated financial statements and notes have been reclassified to conform to the 2016 presentation.

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 June 30		Six months ended June 30	
	2016	2015	2016	2015
	(in thousands)			
Weighted average shares outstanding (basic)	173,394	176,433	173,363	177,446
Impact of common stock equivalents	924	1,098	1,004	1,042
Weighted average shares outstanding (diluted)	174,318	177,531	174,367	178,488

For the three and six months ended June 30, 2016, 802,000 and 844,000 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 six months ended June 30, 2015, 1.8 million and 2.0 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	Tax Effect	Net of Tax Amount
	(in thousands)		
Three months ended June 30, 2016			
Unrealized gain on securities	\$19,753	\$(6,914)	\$12,839
Reclassification adjustment for securities gains included in net income ⁽¹⁾	(76)	27	(49)
Amortization of unrealized loss on derivative financial instruments ⁽²⁾	6	(2)	4
Amortization of net unrecognized pension and postretirement items ⁽³⁾	49	(17)	32
Total Other Comprehensive Income	\$19,732	\$(6,906)	\$12,826
Three months ended June 30, 2015			
Unrealized loss on securities	\$(18,474)	\$6,466	\$(12,008)
Reclassification adjustment for securities gains included in net income ⁽¹⁾	(2,413)	844	(1,569)
Amortization of unrealized loss on derivative financial instruments ⁽²⁾	52	(18)	34
Amortization of net unrecognized pension and postretirement items ⁽³⁾	717	(251)	466
Total Other Comprehensive Loss	\$(20,118)	\$7,041	\$(13,077)
Six months ended June 30, 2016			
Unrealized gain on securities	\$45,946	\$(16,081)	\$29,865
Reclassification adjustment for securities gains included in net income ⁽¹⁾	(1,023)	358	(665)
Amortization of unrealized loss on derivative financial instruments ⁽²⁾	12	(4)	8
Amortization of net unrecognized pension and postretirement items ⁽³⁾	766	(268)	498
Total Other Comprehensive Income	\$45,701	\$(15,995)	\$29,706