

FULTON FINANCIAL CORP  
Form 10-Q  
August 08, 2013

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, 2013, 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 check mark 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 check mark 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 check mark 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 check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

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 – 193,815,000 shares outstanding as of July 31, 2013.

---

FULTON FINANCIAL CORPORATION  
 FORM 10-Q FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2013  
 INDEX

Description	Page
<b>PART I. FINANCIAL INFORMATION</b>	
<u>Item 1. Financial Statements (Unaudited):</u>	
(a) Consolidated <u>Balance Sheets</u> - June 30, 2013 and December 31, 2012	<u>3</u>
(b) <u>Consolidated Statements of Income - Three and six months ended</u> June 30, 2013 and 2012	<u>4</u>
(c) <u>Consolidated Statements of Comprehensive Income - Three and six months ended</u> June 30, 2013 and 2012	<u>5</u>
(d) <u>Consolidated Statements of Shareholders' Equity - Six months ended</u> June 30, 2013 and 2012	<u>6</u>
(e) <u>Consolidated Statements of Cash Flows - Six months ended</u> June 30, 2013 and 2012	<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>36</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>64</u>
<u>Item 4. Controls and Procedures</u>	<u>69</u>
<b>PART II. OTHER INFORMATION</b>	
<u>Item 1. Legal Proceedings</u>	<u>70</u>
<u>Item 1A. Risk Factors</u>	<u>70</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>70</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>70</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>70</u>
<u>Item 5. Other Information</u>	<u>70</u>
<u>Item 6. Exhibits</u>	<u>70</u>
<u>Signatures</u>	<u>71</u>
<u>Exhibit Index</u>	<u>72</u>



## Item 1. Financial Statements

FULTON FINANCIAL CORPORATION  
CONSOLIDATED BALANCE SHEETS

(in thousands, except per-share data)

	June 30, 2013 (unaudited)	December 31, 2012
<b>ASSETS</b>		
Cash and due from banks	\$219,944	\$256,300
Interest-bearing deposits with other banks	130,065	173,257
Loans held for sale	60,909	67,899
Investment securities:		
Held to maturity (estimated fair value of \$246 in 2013 and \$319 in 2012)	227	292
Available for sale	2,915,652	2,793,725
Loans, net of unearned income	12,645,418	12,146,971
Less: Allowance for loan losses	(216,431)	(223,903)
Net Loans	12,428,987	11,923,068
Premises and equipment	224,418	227,723
Accrued interest receivable	45,713	45,786
Goodwill	530,614	530,656
Intangible assets	3,838	4,907
Other assets	462,043	509,484
Total Assets	\$17,022,410	\$16,533,097
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$3,168,781	\$3,009,966
Interest-bearing	9,089,028	9,474,197
Total Deposits	12,257,809	12,484,163
Short-term borrowings:		
Federal funds purchased	780,459	592,470
Other short-term borrowings	839,859	275,929
Total Short-Term Borrowings	1,620,318	868,399
Accrued interest payable	17,708	19,330
Other liabilities	208,676	185,296
Federal Home Loan Bank advances and long-term debt	889,167	894,253
Total Liabilities	14,993,678	14,451,441
<b>SHAREHOLDERS' EQUITY</b>		
Common stock, \$2.50 par value, 600 million shares authorized, 217.5 million shares issued in 2013 and 216.8 million shares issued in 2012	543,637	542,093
Additional paid-in capital	1,429,019	1,426,267
Retained earnings	412,609	363,937
Accumulated other comprehensive income (loss)	(32,466)	5,675
Treasury stock, at cost, 23.8 million shares in 2013 and 17.6 million shares in 2012	(324,067)	(256,316)
Total Shareholders' Equity	2,028,732	2,081,656
Total Liabilities and Shareholders' Equity	\$17,022,410	\$16,533,097

See Notes to Consolidated Financial Statements

3

---

FULTON FINANCIAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per-share data)

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
<b>INTEREST INCOME</b>				
Loans, including fees	\$ 135,032	\$ 141,541	\$ 269,162	\$ 285,887
Investment securities:				
Taxable	14,516	18,624	27,913	37,285
Tax-exempt	2,345	2,596	4,824	5,297
Dividends	766	641	1,565	1,340
Loans held for sale	384	538	879	969
Other interest income	35	45	57	98
Total Interest Income	153,078	163,985	304,400	330,876
<b>INTEREST EXPENSE</b>				
Deposits	9,498	14,743	19,899	30,993
Short-term borrowings	700	411	1,209	692
Long-term debt	10,815	11,301	21,583	22,966
Total Interest Expense	21,013	26,455	42,691	54,651
Net Interest Income	132,065	137,530	261,709	276,225
Provision for credit losses	13,500	25,500	28,500	53,500
Net Interest Income After Provision for Credit Losses	118,565	112,030	233,209	222,725
<b>NON-INTEREST INCOME</b>				
Service charges on deposit accounts	14,651	15,367	28,762	30,209
Mortgage banking income	10,997	11,143	19,170	21,193
Investment management and trust services	10,601	9,822	20,697	19,199
Other service charges and fees	9,508	11,507	18,018	22,062
Other	3,694	3,931	7,590	9,494
Investment securities gains, net:				
Net gains on sales of investment securities	2,892	1,595	5,365	2,846
Other-than-temporary impairment losses	(27	) (57	) (27	) (57
Investment securities gains, net	2,865	1,538	5,338	2,789
Total Non-Interest Income	52,316	53,308	99,575	104,946
<b>NON-INTEREST EXPENSE</b>				
Salaries and employee benefits	63,490	60,091	124,702	120,451
Net occupancy expense	11,447	11,205	23,291	22,140
Other outside services	5,315	5,101	8,175	8,014
Data processing	4,509	3,759	8,412	7,447
Equipment expense	3,893	3,185	7,801	6,554
Professional fees	3,395	2,984	6,442	5,566
Software	3,094	2,272	5,842	4,447
FDIC insurance expense	3,001	3,002	5,848	6,023
Other real estate owned and repossession expense	1,941	3,165	4,795	6,460
Marketing	1,922	2,583	3,794	5,055
Operating risk loss	1,860	2,055	3,626	5,423
Intangible amortization	535	761	1,069	1,562
Other	12,728	11,924	24,269	23,614
Total Non-Interest Expense	117,130	112,087	228,066	222,756
Income Before Income Taxes	53,751	53,251	104,718	104,915

Edgar Filing: FULTON FINANCIAL CORP - Form 10-Q

Income taxes	13,169	13,360	24,909	26,892
Net Income	\$40,582	\$39,891	\$79,809	\$78,023

PER SHARE:

Net Income (Basic)	\$0.21	\$0.20	\$0.41	\$0.39
Net Income (Diluted)	0.21	0.20	0.41	0.39
Cash Dividends	0.08	0.07	0.16	0.14

See Notes to Consolidated Financial Statements



FULTON FINANCIAL CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three months ended		Six months ended	
	June 30		June 30	
	2013	2012	2013	2012
Net Income	\$40,582	\$39,891	\$79,809	\$78,023
Other Comprehensive Income (Loss), net of tax:				
Unrealized loss on securities	(36,958 )	(10,704 )	(36,833 )	(6,120 )
Reclassification adjustment for securities gains included in net income	(1,862 )	(999 )	(3,470 )	(1,812 )
Non-credit related unrealized gain (loss) on other-than-temporarily impaired debt securities	355	(172 )	1,438	(37 )
Unrealized gain on derivative financial instruments	34	34	68	68
Amortization of net unrecognized pension and postretirement items	328	214	656	428
Other Comprehensive Loss	(38,103 )	(11,627 )	(38,141 )	(7,473 )
Total Comprehensive Income	\$2,479	\$28,264	\$41,668	\$70,550

See Notes to Consolidated Financial Statements

FULTON FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)  
SIX MONTHS ENDED JUNE 30, 2013 AND 2012

(in thousands, except per-share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares Outstanding	Amount					
Balance at December 31, 2012	199,225	\$542,093	\$1,426,267	\$363,937	\$ 5,675	\$(256,316)	\$2,081,656
Net income				79,809			79,809
Other comprehensive loss					(38,141 )		(38,141 )
Stock issued, including related tax benefits	854	1,544	(455 )			3,586	4,675
Stock-based compensation awards			3,207				3,207
Acquisition of treasury stock	(6,421 )					(71,337 )	(71,337 )
Common stock cash dividends - \$0.16 per share				(31,137 )			(31,137 )
Balance at June 30, 2013	193,658	\$543,637	\$1,429,019	\$412,609	\$(32,466 )	\$(324,067)	\$2,028,732
Balance at December 31, 2011	200,164	\$540,386	\$1,423,727	\$264,059	\$ 7,955	\$(243,588)	\$1,992,539
Net income				78,023			78,023
Other comprehensive loss					(7,473 )		(7,473 )
Stock issued, including related tax benefits	716	1,201	(1,740 )			3,696	3,157
Stock-based compensation awards			3,050				3,050
Common stock cash dividends - \$0.14 per share				(28,112 )			(28,112 )
Balance at June 30, 2012	200,880	\$541,587	\$1,425,037	\$313,970	\$ 482	\$(239,892)	\$2,041,184

See Notes to Consolidated  
Financial Statements

FULTON FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six months ended June 30	
	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$79,809	\$78,023
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	28,500	53,500
Depreciation and amortization of premises and equipment	12,577	10,845
Net amortization of investment securities premiums	6,099	5,251
Investment securities gains, net	(5,338)	(2,789)
Net decrease (increase) in loans held for sale	6,990	(24,397)
Amortization of intangible assets	1,069	1,562
Stock-based compensation	3,207	3,050
Excess tax benefits from stock-based compensation	(148)	(14)
Decrease in accrued interest receivable	73	2,815
Decrease in other assets	21,968	3,486
Decrease in accrued interest payable	(1,622)	(1,961)
(Decrease) increase in other liabilities	(10,782)	2,550
Total adjustments	62,593	53,898
Net cash provided by operating activities	142,402	131,921
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of securities available for sale	176,266	210,804
Proceeds from maturities of securities held to maturity	65	121
Proceeds from maturities of securities available for sale	381,807	371,176
Purchase of securities held to maturity	—	(14)
Purchase of securities available for sale	(674,228)	(602,642)
Decrease in short-term investments	43,192	56,868
Net increase in loans	(534,760)	(88,253)
Net purchases of premises and equipment	(9,272)	(20,654)
Net cash used in investing activities	(616,930)	(72,594)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net increase (decrease) in demand and savings deposits	55,058	(10,218)
Net decrease in time deposits	(281,412)	(279,305)
Increase in short-term borrowings	751,919	334,648
Repayments of long-term debt	(5,086)	(131,340)
Net proceeds from issuance of common stock	4,527	3,143
Excess tax benefits from stock-based compensation	148	14
Dividends paid	(15,645)	(26,056)
Acquisition of treasury stock	(71,337)	—
Net cash provided by (used in) financing activities	438,172	(109,114)
Net Decrease in Cash and Due From Banks	(36,356)	(49,787)
Cash and Due From Banks at Beginning of Period	256,300	292,598
Cash and Due From Banks at End of Period	\$219,944	\$242,811
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash paid during the period for:		
Interest	\$44,313	\$56,612
Income taxes	24,336	22,646

See Notes to Consolidated Financial Statements

7

---

FULTON FINANCIAL CORPORATION  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A – 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. Operating results for the three and six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. The Corporation evaluates subsequent events through the filing date of this Form 10-Q with the Securities and Exchange Commission (SEC).

NOTE B – Net Income Per Share

Basic net income per share is calculated as net income divided by the weighted average number of shares outstanding. For diluted net income per share, net income is 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 and restricted stock. 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	
	2013	2012	2013	2012
	(in thousands)			
Weighted average shares outstanding (basic)	193,273	199,671	194,777	199,581
Effect of dilutive securities	1,073	1,135	996	994
Weighted average shares outstanding (diluted)	194,346	200,806	195,773	200,575

For the three and six months ended June 30, 2013, 4.3 million and 4.0 million shares issuable under 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, 2012, 5.2 million shares issuable under stock options were excluded from the diluted net income per share computation as their effect would have been anti-dilutive.

## NOTE C – Accumulated Other Comprehensive Income (Loss)

The following table presents changes in other comprehensive income (loss):

	Before-Tax Amount (in thousands)	Tax Effect	Net of Tax Amount
Three months ended June 30, 2013			
Unrealized loss on securities	\$ (56,858 )	\$ 19,900	\$ (36,958 )
Reclassification adjustment for securities gains included in net income (1)	(2,865 )	1,003	(1,862 )
Non-credit related unrealized gains (losses) on other-than-temporarily impaired debt securities	546	(191 )	355
Unrealized gain on derivative financial instruments	51	(17 )	34
Amortization of net unrecognized pension and postretirement items (2)	504	(176 )	328
Total Other Comprehensive Income (Loss)	\$ (58,622 )	\$ 20,519	\$ (38,103 )
Three months ended June 30, 2012			
Unrealized loss on securities	\$ (16,467 )	\$ 5,763	\$ (10,704 )
Reclassification adjustment for securities gains included in net income (1)	(1,538 )	539	(999 )
Non-credit related unrealized gains (losses) on other-than-temporarily impaired debt securities	(265 )	93	(172 )
Unrealized gain on derivative financial instruments	52	(18 )	34
Amortization of net unrecognized pension and postretirement items (2)	330	(116 )	214
Total Other Comprehensive Income (Loss)	\$ (17,888 )	\$ 6,261	\$ (11,627 )
Six months ended June 30, 2013			
Unrealized loss on securities	\$ (56,666 )	\$ 19,833	\$ (36,833 )
Reclassification adjustment for securities gains included in net income (1)	(5,338 )	1,868	(3,470 )
Non-credit related unrealized gains (losses) on other-than-temporarily impaired debt securities	2,212	(774 )	1,438
Unrealized gain on derivative financial instruments	105	(37 )	68
Amortization of net unrecognized pension and postretirement items (2)	1,009	(353 )	656
Total Other Comprehensive Income (Loss)	\$ (58,678 )	\$ 20,537	\$ (38,141 )
Six months ended June 30, 2012			
Unrealized loss on securities	\$ (9,415 )	\$ 3,295	\$ (6,120 )
Reclassification adjustment for securities gains included in net income (1)	(2,789 )	977	(1,812 )
Non-credit related unrealized gains (losses) on other-than-temporarily impaired debt securities	(57 )	20	(37 )
Unrealized gain on derivative financial instruments	104	(36 )	68
Amortization of net unrecognized pension and postretirement items (2)	659	(231 )	428
Total Other Comprehensive Income (Loss)	\$ (11,498 )	\$ 4,025	\$ (7,473 )

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 D, "Investment Securities," for additional details.

Amounts reclassified out of accumulated other comprehensive income. Before-tax amounts included within (2) "Salaries and employee benefits" on the consolidated statements of income. See Note H, "Employee Benefit Plans," for additional details.

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

	Unrealized Gains (Losses) on Investment Securities Not Other-Than- Impaired (in thousands)	Unrealized Non-Credit Gains (Losses) on Other-Than-Temporarily Impaired Debt Securities Temporarily	Unrealized Effective Portions of Losses on Forward-Starting Interest Rate Swaps	Unrecognized Pension and Postretirement Plan Income (Costs)	Total
<b>Three months ended June 30, 2013</b>					
Balance at March 31, 2013	\$24,878	\$ 1,696	\$ (2,784 )	\$ (18,153 )	\$5,637
Other comprehensive income (loss) before reclassifications	(36,958 )	355	—	—	(36,603 )
Amounts reclassified from accumulated other comprehensive loss	(861 )	(1,001 )	34	328	(1,500 )
Balance at June 30, 2013	\$(12,941)	\$ 1,050	\$ (2,750 )	\$ (17,825 )	\$(32,466)
<b>Three months ended June 30, 2012</b>					
Balance at March 31, 2012	\$30,825	\$ (876 )	\$ (2,920 )	\$ (14,920 )	\$12,109
Other comprehensive income (loss) before reclassifications	(10,704 )	(172 )	—	—	(10,876 )
Amounts reclassified from accumulated other comprehensive loss	(999 )	—	34	214	(751 )
Balance at June 30, 2012	\$19,122	\$ (1,048 )	\$ (2,886 )	\$ (14,706 )	\$482
<b>Six months ended June 30, 2013</b>					
Balance at December 31, 2012	\$26,361	\$ 613	\$ (2,818 )	\$ (18,481 )	\$5,675
Other comprehensive income (loss) before reclassifications	(36,833 )	1,438	—	—	(35,395 )
Amounts reclassified from accumulated other comprehensive loss	(2,469 )	(1,001 )	68	656	(2,746 )
Balance at June 30, 2013	\$(12,941)	\$ 1,050	\$ (2,750 )	\$ (17,825 )	\$(32,466)
<b>Six months ended June 30, 2012</b>					
Balance at December 31, 2011	\$27,054	\$ (1,011 )	\$ (2,954 )	\$ (15,134 )	\$7,955
Other comprehensive income (loss) before reclassifications	(6,120 )	—	—	—	(6,120 )
Amounts reclassified from accumulated other comprehensive loss	(1,812 )	(37 )	68	428	(1,353 )
Balance at June 30, 2012	\$19,122	\$ (1,048 )	\$ (2,886 )	\$ (14,706 )	\$482



## NOTE D – Investment Securities

The following table presents the amortized cost and estimated fair values of investment securities:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Held to Maturity at June 30, 2013	(in thousands)			
Mortgage-backed securities	\$227	\$19	\$—	\$246
Available for Sale at June 30, 2013				
Equity securities	\$136,364	\$6,903	\$(148	) \$143,119
U.S. Government securities	2,251	—	—	2,251
U.S. Government sponsored agency securities	809	11	(1	) 819
State and municipal securities	290,351	8,140	(2,758	) 295,733
Corporate debt securities	108,315	5,424	(6,262	) 107,477
Collateralized mortgage obligations	1,253,484	10,186	(23,108	) 1,240,562
Mortgage-backed securities	970,273	14,519	(11,693	) 973,099
Auction rate securities	172,092	15	(19,515	) 152,592
	\$2,933,939			