FULTON FINANCIAL CORP
Form 10-K
February 27, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014,

or

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

Commission File Number: 0-10587

FULTON FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Pennsylvania	23-2195389
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
One Penn Square, P. O. Box 4887, Lancaster, Pennsylvania	17604
(Address of principal executive offices)	(Zip Code)

(717) 291-2411
(Registrant’s telephone number, including area code)

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

Title of each class	Name of exchange on which registered
Common Stock, $2.50 par value	The NASDAQ Stock Market, LLC

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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 x 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 x No ¨

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

The aggregate market value of the voting Common Stock held by non-affiliates of the registrant, based on the average bid and asked prices on June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $2.3 billion. The number of shares of the registrant's Common Stock outstanding on January 31, 2015 was 179,030,000.

Portions of the Definitive Proxy Statement of the Registrant for the Annual Meeting of Shareholders to be held on May 5, 2015 are incorporated by reference in Part III.

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PART I

Item 1. Business

General

Fulton Financial Corporation (the Corporation) was incorporated under the laws of Pennsylvania on February 8, 1982 and became a bank holding company through the acquisition of all of the outstanding stock of Fulton Bank on June 30, 1982. In 2000, the Corporation became a financial holding company as defined in the Gramm-Leach-Bliley Act (GLB Act), which allowed the Corporation to expand its financial services activities under its holding company structure (See "Competition" and "Supervision and Regulation"). The Corporation directly owns 100% of the common stock of six community banks and ten non-bank entities. As of December 31, 2014, the Corporation had approximately 3,560 full-time equivalent employees.

The common stock of Fulton Financial Corporation is listed for quotation on the Global Select Market of The NASDAQ Stock Market under the symbol FULT. The Corporation's Internet address is www.fult.com. Electronic copies of the Corporation's 2014 Annual Report on Form 10-K are available free of charge by visiting "Investor Relations" at www.fult.com. Electronic copies of quarterly reports on Form 10-Q and current reports on Form 8-K are also available at this Internet address. These reports, as well as any amendments thereto, are posted on the Corporation's website as soon as reasonably practicable after they are electronically filed with the Securities and Exchange Commission (SEC).

Bank and Financial Services Subsidiaries

The Corporation's six subsidiary banks are located primarily in suburban or semi-rural geographical markets throughout a five-state region (Pennsylvania, Delaware, Maryland, New Jersey and Virginia). Each of these banking subsidiaries delivers financial services in a highly personalized, community-oriented style. The Corporation has announced that it is developing plans to seek regulatory approval to begin the process of consolidating its six subsidiary banks. This process is expected to eventually result in the Corporation conducting its core banking business through a single subsidiary bank. The timing of the commencement of this multi-year process will depend significantly on the Corporation and its banking subsidiaries making necessary progress in enhancing a largely centralized compliance program designed to comply with the requirements of the Bank Secrecy Act, the USA Patriot Act of 2001 and related anti-money laundering regulations, and establishing, to the satisfaction of the Corporation's banking regulatory agencies, that those enhancements are sustainable to achieve compliance with the regulatory enforcement orders issued to the Corporation and its subsidiary banks by their respective banking regulatory agencies relating to identified deficiencies in that compliance program. Where appropriate, operations are centralized through common platforms and back-office functions.

The Corporation's subsidiary banks are located in areas that are home to a wide range of manufacturing, distribution, health care and other service companies. The Corporation and its banks are not dependent upon one or a few customers or any one industry, and the loss of any single customer or a few customers would not have a material adverse impact on any of the subsidiary banks.

Each of the subsidiary banks offers a full range of consumer and commercial banking products and services in its local market area. Personal banking services include various checking account and savings deposit products, certificates of deposit and individual retirement accounts. The subsidiary banks offer a variety of consumer lending products to creditworthy customers in their market areas. Secured consumer loan products include home equity loans and lines of credit, which are underwritten based on loan-to-value limits specified in the Corporation's lending policy. Subsidiary banks also offer a variety of fixed and variable-rate products, including construction loans and jumbo loans. Residential mortgages are offered through Fulton Mortgage Company, which operates as a division of each subsidiary bank. Consumer loan products also include automobile loans, automobile and equipment leases, personal lines of credit and checking account overdraft protection.

Commercial banking services are provided to small and medium sized businesses (generally with sales of less than $150 million) in the subsidiary banks' market areas. The Corporation's policies limit the maximum total lending commitment to an individual borrower to $50.0 million as of December 31, 2014, which is below the Corporation's regulatory lending limit. In addition, the Corporation has established lower total lending limits for certain types of lending commitments, and also based on the Corporation's internal risk rating of the borrower. Commercial lending products include commercial, financial, agricultural and real estate loans. Floating, adjustable and fixed rate loans are provided, with floating and adjustable rate loans generally tied to an index such as the Prime Rate or the London Interbank Offered Rate. The commercial lending policy of the Corporation's subsidiary banks encourages relationship banking and provides strict guidelines related to customer creditworthiness and collateral requirements for secured loans. In addition, equipment leasing, letters of credit, cash management services and traditional deposit products are offered to commercial customers.

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

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

The following table provides certain information for the Corporation’s banking subsidiaries as of December 31, 2014:

Subsidiary	Main Office Location	Total Assets	Total Deposits	Branches (1)
		(dollars in millions)		
Fulton Bank, N.A.	Lancaster, PA	$9,489	$7,242	115
Fulton Bank of New Jersey	Mt. Laurel, NJ	3,473	2,908	70
The Columbia Bank	Columbia, MD	2,090	1,642	33
Lafayette Ambassador Bank	Bethlehem, PA	1,421	1,158	21
FNB Bank, N.A.	Danville, PA	340	269	8
Swineford National Bank	Middleburg, PA	308	257	7
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(1) Remote service facilities (mainly stand-alone automated teller machines) are excluded. See additional information in "Item 2. Properties."

Non-Bank Subsidiaries

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

The Corporation owns 100% of the common stock of four non-bank subsidiaries which are not consolidated for financial reporting purposes. The following table provides information for these non-bank subsidiaries, whose sole assets consist of junior subordinated deferrable interest debentures issued by the Corporation, as of December 31, 2014 (dollars in thousands):

Subsidiary	State of Incorporation	Total Assets
Fulton Capital Trust I	Pennsylvania	$154,640
Columbia Bancorp Statutory Trust	Delaware	6,186
Columbia Bancorp Statutory Trust II	Delaware	4,124
Columbia Bancorp Statutory Trust III	Delaware	6,186

Competition

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

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

Market Share

Deposit market share information is compiled as of June 30 of each year by the Federal Deposit Insurance Corporation (FDIC). The Corporation’s banks maintain branch offices in 52 counties across five states. In 16 of these counties, the Corporation ranked in the top 5 in deposit market share (based on deposits as of June 30, 2014). The following table summarizes information about the counties in which the Corporation has branch offices and its market position in each county.

County	State	Population (2014 Est.)	Banking Subsidiary	No. of Financial Institutions		Deposit Market Share (June 30, 2014)		
				Banks/ Thrifts	Credit Unions	Rank	%	
Lancaster	PA	534,000	Fulton Bank, N.A.	20	14	2	24.2	%
Berks	PA	414,000	Fulton Bank, N.A.	19	12	8	4.0	%
Bucks	PA	628,000	Fulton Bank, N.A.	37	19	17	1.8	%
Centre	PA	156,000	Fulton Bank, N.A.	18	4	14	2.0	%
Chester	PA	514,000	Fulton Bank, N.A.	34	9	10	3.4	%
Columbia	PA	67,000	FNB Bank, N.A.	6	2	5	4.2	%
Cumberland	PA	244,000	Fulton Bank, N.A.	18	6	14	1.6	%
Dauphin	PA	272,000	Fulton Bank, N.A.	16	9	7	4.0	%
Delaware	PA	564,000	Fulton Bank, N.A.	31	17	29	0.2	%
Lebanon	PA	136,000	Fulton Bank, N.A.	12	6	1	31.5	%
Lehigh	PA	357,000	Lafayette Ambassador Bank	22	13	12	3.5	%
Lycoming	PA	117,000	FNB Bank, N.A.	11	10	14	0.8	%
Montgomery	PA	818,000	Fulton Bank, N.A.	42	34	26	0.4	%
Montour	PA	19,000	FNB Bank, N.A.	5	3	2	25.0	%
Northampton	PA	301,000	Lafayette Ambassador Bank	17	12	3	13.6	%
Northumberland	PA	94,000	FNB Bank, N.A.	18	4	9	3.9	%
			Swineford National Bank			4	1.9	%
Schuylkill	PA	146,000	Fulton Bank, N.A.	16	3	9	4.1	%
Snyder	PA	40,000	Swineford National Bank	8	1	2	26.2	%
Union	PA	45,000	Swineford National Bank	8	3	4	6.7	%
York	PA	441,000	Fulton Bank, N.A.	16	13	4	10.2	%
New Castle	DE	555,000	Fulton Bank, N.A.	15	23	14	0.2	%
Sussex	DE	211,000	Fulton Bank, N.A.	15	5	3	7.8	%
Anne Arundel	MD	564,000	The Columbia Bank	30	12	27	0.3	%
Baltimore	MD	831,000	The Columbia Bank	39	19	23	0.7	%
Baltimore City	MD	622,000	The Columbia Bank	30	17	13	0.4	%
Cecil	MD	102,000	The Columbia Bank	7	4	3	12.6	%
Frederick	MD	245,000	The Columbia Bank	18	5	17	0.7	%
Howard	MD	313,000	The Columbia Bank	19	6	4	9.3	%
Montgomery	MD	1,036,000	The Columbia Bank	35	25	36	0.2	%
Prince George's	MD	902,000	The Columbia Bank	19	26	22	0.6	%
Washington	MD	150,000	The Columbia Bank	14	4	2	20.0	%
Atlantic	NJ	277,000	Fulton Bank of New Jersey	16	8	12	1.2	%
Burlington	NJ	451,000		21	13	17	0.9	%

			Fulton Bank of New Jersey					
Camden	NJ	512,000	Fulton Bank of New Jersey	20	11	12	2.1	%
Cumberland	NJ	157,000	Fulton Bank of New Jersey	12	5	11	1.8	%
Gloucester	NJ	291,000	Fulton Bank of New Jersey	22	6	2	13.3	%

County	State	Population (2014 Est.)	Banking Subsidiary	No. of Financial Institutions Banks/ Thrifts	Credit Unions	Deposit Market Share (June 30, 2014) Rank	%	
Hunterdon	NJ	126,000	Fulton Bank of New Jersey	16	7	11	2.5	%
Mercer	NJ	372,000	Fulton Bank of New Jersey	26	21	21	0.9	%
Middlesex	NJ	838,000	Fulton Bank of New Jersey	46	30	33	0.3	%
Monmouth	NJ	629,000	Fulton Bank of New Jersey	28	11	27	0.5	%
Morris	NJ	502,000	Fulton Bank of New Jersey	31	18	15	1.3	%
Ocean	NJ	587,000	Fulton Bank of New Jersey	21	7	17	0.7	%
Salem	NJ	65,000	Fulton Bank of New Jersey	8	4	1	25.1	%
Somerset	NJ	334,000	Fulton Bank of New Jersey	30	13	9	2.9	%
Warren	NJ	107,000	Fulton Bank of New Jersey	13	2	5	8.9	%
Chesapeake City	VA	236,000	Fulton Bank, N.A.	14	8	10	1.7	%
Fairfax	VA	1,142,000	Fulton Bank, N.A.	36	29	41	0.1	%
Henrico	VA	323,000	Fulton Bank, N.A.	21	17	18	0.9	%
Manassas	VA	43,000	Fulton Bank, N.A.	13	4	11	1.9	%
Newport News	VA	184,000	Fulton Bank, N.A.	12	7	15	0.5	%
Richmond City	VA	217,000	Fulton Bank, N.A.	16	12	15	0.2	%
Virginia Beach	VA	454,000	Fulton Bank, N.A.	17	11	11	1.5	%

Supervision and Regulation

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

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

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

OCC - Office of the Comptroller of the Currency

Federal statutes that apply to the Corporation and its subsidiaries include the GLB Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the Bank Holding Company Act (BHCA), the Federal Reserve Act and the Federal Deposit Insurance Act, among others. In general, these statutes, regulations promulgated thereunder, and related interpretations establish the eligible business activities of the Corporation, certain acquisition and merger restrictions, limitations on intercompany transactions, such as loans and dividends, and capital adequacy requirements, among other things.
The Corporation is subject to regulation and examination by the Federal Reserve Bank, and is required to file periodic reports and to provide additional information that the Federal Reserve may require. In addition, the Federal Reserve must approve certain proposed changes in organizational structure or other business activities before they occur. The BHCA imposes certain restrictions

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

Dodd-Frank Act – The Dodd-Frank Act was enacted in July 2010 and resulted in significant financial regulatory reform. The Dodd-Frank Act also changed the responsibilities of the current federal banking regulators. Among other things, the Dodd-Frank Act created the Financial Stability Oversight Council, with oversight authority for monitoring and regulating systemic risk, and the Consumer Financial Protection Bureau (CFPB), which has broad regulatory and enforcement powers over consumer financial products and services. Effective July 21, 2011, the CFPB became responsible for administering and enforcing numerous federal consumer financial laws enumerated in the Dodd-Frank Act. The Dodd-Frank Act also provided that, for banks with total assets of more than $10 billion; the CFPB would have exclusive or primary authority to examine those banks for, and enforce compliance with, the federal consumer financial laws. As of December 31, 2014, none of the Corporation's subsidiary banks had total assets of more than $10 billion, however, the Corporation's largest subsidiary bank, Fulton Bank, N. A., had $9.5 billion in assets. Although not subject to CFPB examination, the Corporation's subsidiary banks remain subject to the review and supervision of other applicable regulatory authorities, and such authorities may enforce compliance with regulations issued by the CFPB. In the event that Fulton Bank, N.A.'s total assets exceed $10 billion in the future, Fulton Bank, N.A. would become subject to supervision, examination and enforcement by the CFPB.

The scope of the Dodd-Frank Act impacts many aspects of the financial services industry, and it requires the development and adoption of numerous regulations, some of which have not yet been issued. The effects of the Dodd-Frank Act on the financial services industry will depend, in large part, upon the extent to which regulators exercise the authority granted to them under the Dodd-Frank Act and the approaches taken in implementing regulations. Additional uncertainty regarding the effects of the Dodd-Frank Act exists due to court decisions and the potential for additional legislative changes to the Dodd-Frank Act.

The Dodd-Frank Act's provisions that have received the most public attention have generally been those which apply only to larger institutions with total consolidated assets of $50 billion or more. However, the Dodd-Frank Act contains numerous other provisions that affect all bank holding companies, including the Corporation.

The following is a listing of significant provisions of the Dodd-Frank Act, and, if applicable, the resulting regulatory rules adopted, that apply (or will apply), most directly to the Corporation and its subsidiaries:

- Federal deposit insurance – On April 1, 2011, the FDIC's revised deposit insurance assessment base changed from total domestic deposits to average total assets, minus average tangible equity. In addition, the Dodd-Frank Act created a two scorecard system, one for large depository institutions that have more than $10 billion in assets and another for highly complex institutions that have over $50 billion in assets. See details under the heading "Federal Deposit Insurance" below.
- Debit card interchange fees – In June 2011, the FRB adopted regulations, which became effective on October 1, 2011, setting maximum permissible interchange fees issuers can receive or charge on electronic debit card transactions and network exclusivity arrangements.
- Interest on demand deposits – Beginning in July 2011, depository institutions were no longer prohibited from paying interest on business transaction and certain other accounts.
- Stress testing – In October 2012, the Board of Governors of the Federal Reserve System (FRB) issued final rules regarding company-run stress testing. In accordance with these rules, the Corporation is required to conduct an annual stress test in the manner specified, and using assumptions for baseline, adverse and severely adverse scenarios announced by the FRB. The stress test is designed to assess the potential impact of the various scenarios on the Corporation's earnings, capital levels and capital ratios over a nine-quarter time horizon. The Corporation's board of directors and its senior management are required to consider the results of the stress test in the normal course of business, including as part of the Corporation's capital planning process and the evaluation of the adequacy of its capital. Public disclosure of summary stress test results under the severely adverse scenario will begin in June 2015 for stress tests that commenced in the fall of 2014. While the Corporation believes that both the quality and magnitude of its capital base are sufficient to support its current operations given its risk profile, the results of the annual stress testing process may lead the Corporation to retain additional capital or alter the mix of its capital components. Under

similar rules adopted by the OCC, national banks with total consolidated assets of more than $10 billion are also required to conduct annual stress tests. Although the total consolidated assets of Fulton Bank, N.A., the Corporation's largest subsidiary bank, are less than $10 billion, if Fulton Bank, N.A.'s assets exceed $10 billion in the future, it will become subject to the OCC's stress test rules.

- Ability-to-pay rules and qualified mortgages – As required by the Dodd-Frank Act, the CFPB issued a series of final rules in January 2013 amending Regulation Z, implementing the Truth in Lending Act, which requires mortgage lenders to make a reasonable and good faith determination, based on verified and documented information, that a consumer applying for a residential mortgage loan has a reasonable ability to repay the loan according to its terms. These final rules prohibit creditors, such as the Corporation's bank subsidiaries, from extending residential mortgage loans without regard for the consumer's ability to repay and add restrictions and requirements to residential mortgage origination and servicing practices. In addition, these rules restrict the imposition of prepayment penalties and compensation practices relating to residential mortgage loan origination. Mortgage lenders are required to determine consumers' ability to repay in one of two ways. The first alternative requires the mortgage lender to consider eight underwriting factors when making the credit decision. Alternatively, the mortgage lender can originate "qualified mortgages," which are entitled to a presumption that the creditor making the loan satisfied the ability-to-repay requirements. In general, a qualified mortgage is a residential mortgage loan that does not have certain high risk features, such as negative amortization, interest-only payments, balloon payments, or a term exceeding 30 years. In addition, to be a qualified mortgage, the points and fees paid by a consumer cannot exceed 3% of the total loan amount and the borrower's total debt-to-income ratio must be no higher than 43% (subject to certain limited exceptions for loans eligible for purchase, guarantee or insurance by a government sponsored entity or a federal agency).

- Integrated disclosures under the Real Estate Settlement Procedures Act and the Truth in Lending Act - As required by the Dodd-Frank Act, the CFPB issued final rules in December 2013 revising and integrating previously separate disclosures required under the Real Estate Settlement Procedures Act (RESPA) and the Truth in Lending Act (TILA) in connection with certain closed-end consumer mortgage loans. These final rules will become effective August 1, 2015 and require lenders to provide a new Loan Estimate, combining content from the former Good Faith Estimate required under RESPA and the initial disclosures required under TILA not later than the third business day after submission of a loan application, and a new Closing Disclosure, combining content of the former HUD-1 Settlement Statement required under RESPA and the final disclosures required under TILA at least three days prior to the loan closing.
- Volcker Rule – As mandated by the Dodd-Frank Act, in December 2013, the OCC, FRB, FDIC, SEC and Commodity Futures Trading Commission issued final rulings (the Final Rules) implementing certain prohibitions and restrictions on the ability of a banking entity and non-bank financial company supervised by the FRB to engage in proprietary trading and have certain ownership interests in, or relationships with, a "covered fund" (the so-called "Volcker Rule"). The Final Rules generally treat as a covered fund any entity that would be an investment company under the Investment Company Act of 1940 (the 1940 Act) but for the application of the exemptions from SEC registration set forth in Section 3(c)(1) (fewer than 100 beneficial owners) or Section 3(c)(7) (qualified purchasers) of the 1940 Act. The Final Rules also require regulated entities to establish an internal compliance program that is consistent with the extent to which it engages in activities covered by the Volcker Rule, which must include making regular reports about those activities to regulators. Although the Final Rules provide some tiering of compliance and reporting obligations based on size, the fundamental prohibitions of the Volcker Rule apply to banking entities of any size, including the Corporation. In December 2014, the FRB extended, until July 21, 2016, the date by which banking entities must conform their activities and investments to the requirements of the Final Rules, and announced its intention to grant an additional one-year extension of the conformance period to July 21, 2017. The Corporation does not engage in proprietary trading or in any other activities prohibited by the Final Rules. Based on the Corporation's evaluation of its investments, none fall within the definition of a "covered fund" and would need to be disposed of by July 21, 2016 or any further extension of the conformance date that maybe granted by the FRB. Therefore, it does not currently expect that the Final Rules will have a material effect on its business, financial condition or results of operations.
- Incentive compensation – As required by the Dodd-Frank Act, a joint interagency proposed regulation was issued in April 2011. The proposed rule would require the reporting of incentive-based compensation arrangements by a covered financial institution and prohibit incentive-based compensation arrangements at a covered financial institution that provides excessive compensation or that could expose the institution to inappropriate risks that could lead to material financial loss. The proposed rule, if adopted as currently proposed, could limit the manner in which the Corporation structures incentive compensation for its executives.

Capital Requirements – There are a number of restrictions on financial and bank holding companies and FDIC-insured depository subsidiaries that are designed to minimize potential loss to depositors and the FDIC insurance funds. Also, a bank holding company is required to serve as a source of financial strength to its depository institution subsidiaries and to commit resources to support such institutions in circumstances where it might not do so absent such policy. Under the BHCA, the FRB has the authority to require a bank holding company to terminate any activity or to relinquish control of a non-bank subsidiary upon the FRB’s determination that such activity or control constitutes a serious risk to the financial soundness and stability of a depository institution subsidiary of the bank holding company. Bank holding companies are required to comply with the FRB’s risk-based capital guidelines, which require a minimum ratio of total capital to risk-weighted assets of 8.00%. At least half of the total capital is required to be Tier 1 capital. In addition to the risk-based capital guidelines, the FRB has adopted a minimum leverage capital ratio under which a bank holding company must maintain a level of Tier 1 capital to average total consolidated assets of at least 3.00% in the case of a bank holding company which has the highest regulatory examination rating and is not contemplating significant growth or expansion. For all other bank holding companies, the minimum ratio of Tier 1 capital to total assets is 4.00%. Depository institutions are required to comply with similar capital guidelines issued by their primary federal regulator. Bank holding companies and depository institutions with supervisory, financial, operational, or managerial weaknesses, as well as those that are anticipating or experiencing significant growth, are expected to maintain capital ratios well above the minimum levels. Moreover, higher capital ratios may be required for any bank holding company and depository institution if warranted by its particular circumstances or risk profile. In all cases, bank holding companies and depository institutions should hold capital commensurate with the level and nature of the risks, including the volume and severity of problem loans, to which they are exposed.

The Basel Committee on Banking Supervision (Basel) is a committee of central banks and bank regulators from major industrialized countries that develops broad policy guidelines for use by each country’s regulators with the purpose of ensuring that financial institutions have adequate capital given the risk levels of assets and off-balance sheet financial instruments. In December 2010, Basel released frameworks for strengthening international capital and liquidity regulations, referred to as Basel III.

In July 2013, the FRB approved final rules (the U.S. Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations and implementing the Basel 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 become fully phased in on January 1, 2019.

When fully phased in, the U.S. Basel III Capital Rules will require the Corporation and its bank subsidiaries to:

- Meet a new minimum Common Equity Tier 1 capital ratio of 4.50% of risk-weighted assets and a minimum Tier 1 capital ratio of 6.00% of risk-weighted assets;
- Continue to require the current minimum Total capital ratio of 8.00% of risk-weighted assets and the minimum Tier 1 leverage capital ratio of 4.00% of average assets;
- 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; 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 trust preferred securities, will be excluded as a component of Tier 1 capital for institutions of the Corporation's size.

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

The new rules provide that the failure to maintain the "capital conservation buffer" will result in restrictions on capital distributions and discretionary cash bonus payments to executive officers. As a result, under the U.S. Basel III Capital Rules, if any of the Corporation's bank subsidiaries fails to maintain the required minimum capital conservation buffer, the Corporation will be subject to limits, and possibly prohibitions, on its ability to obtain capital distributions from such subsidiaries. If the Corporation does not receive sufficient cash dividends from its bank subsidiaries, it may not have sufficient funds to pay dividends on its capital stock, service its debt obligations or repurchase its common stock. In addition, the restrictions on payments of discretionary cash bonuses to executive officers which may make it more difficult for the Corporation to retain key personnel.

As of December 31, 2014, the Corporation believes its current capital levels would meet the fully-phased in minimum capital requirements, including capital conservation buffer, as prescribed in the U.S. Basel III Capital Rules.

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

In September 2014, the FRB approved final rules (the U.S. Liquidity Coverage Ratio Rule) implementing portions of the Basel III liquidity framework for large, internationally active banking organizations, generally those having $250 billion or more in total assets, and similar, but less stringent rules, applicable to bank holding companies with consolidated assets of $50 billion or more. The U.S. Liquidity Coverage Ratio Rule requires banking organizations to maintain a Liquidity Coverage Ratio, or LCR, that is designed to ensure that sufficient high quality liquid resources are available for a one month period in case of a stress scenario.

Impacted financial institutions are required to be compliant with the U.S. Liquidity Coverage Ratio Rule by January 1, 2017. Because the Corporation’s total assets and the scope of its operations do not currently meet the thresholds set forth in the U.S. Liquidity Coverage Ratio Rule, the Corporation is not currently required to maintain a minimum LCR.

The Basel III liquidity framework also introduced a second ratio, referred to as the Net Stable Funding Ratio (NSFR), which is designed to promote funding resiliency over longer-term time horizons by creating additional incentives for banks to fund their activities with more stable sources of funding on an ongoing structural basis. This new liquidity standard is subject to further rulemaking. To date, U.S. banking regulators have not proposed any additional liquidity rules. Because of the Corporation's size, neither the U.S. Liquidity Coverage Ratio Rule or any additional proposed rules under the Basel III liquidity framework will apply to it.

Prompt Corrective Regulatory Action – The Federal Deposit Insurance Corporation Improvement Act (FDICIA) established a system of prompt corrective action to resolve the problems of undercapitalized institutions. Under this system, the federal bank regulators are required to take certain, and authorized to take other, supervisory actions against undercapitalized institutions, based upon five categories of capitalization which FDICIA created: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized," the severity of which depends upon the institution’s degree of capitalization. Generally, a capital restoration plan must be filed with the institution’s primary federal regulator within 45 days of the date an institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," and the plan must be guaranteed by any parent holding company. In addition, various mandatory supervisory actions become immediately applicable to the institution, including restrictions on growth of assets and other forms of expansion.

Under federal banking regulations effective as of December 31, 2014, generally, an insured depository institution is treated as well capitalized if its total risk-based capital ratio is 10.00% or greater, its Tier 1 risk-based capital ratio is 6.00% or greater and its Tier 1 leverage capital ratio is 5.00% or greater, and it is not subject to any order or directive to meet a specific capital level. On January 1, 2015 and thereafter, generally, an insured depository institution is treated as well capitalized if its total risk-based capital ratio is 10.00% or greater, its Tier 1 risk-based capital ratio is 8.00% or greater, its common equity tier 1 risk-based capital ratio is 6.50% or greater and its Tier 1 leverage capital ratio is 5.00% or greater, and it is not subject to any order or directive to meet a specific capital level. As of December 31, 2014, each of the Corporation’s bank subsidiaries’ capital ratios were above the minimum levels required to be considered "well capitalized" by its primary federal regulator under the regulations in effect on December 31, 2014 and the regulations that became effective on January 1, 2015.

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

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

Federal Deposit Insurance – Substantially all of the deposits of the Corporation’s subsidiary banks are insured up to the applicable limits by the Deposit Insurance Fund (DIF) of the FDIC, generally up to $250,000 per insured depositor.

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

On April 1, 2011, as required by the Dodd-Frank Act, the deposit insurance assessment base changed from total domestic deposits to average total assets, minus average tangible equity. In addition, the FDIC also created a two scorecard system, one for large depository institutions that have $10 billion or more in assets and another for highly complex institutions that have $50 billion or more in assets. As of December 31, 2014, none of the Corporation's individual subsidiary banks had assets of $10 billion or more and, therefore, did not meet the classification of large depository institutions.

The FDIC annually establishes for the DIF a designated reserve ratio, or DRR, of estimated insured deposits. The DRR is currently 2.00%. The FDIC is authorized to change deposit insurance assessment rates as necessary to maintain the DRR, without further notice-and-comment rulemaking, provided that: (1) no such adjustment can be greater than three basis points from one quarter to the next, (2) adjustments cannot result in rates more than three basis points above or below the base rates and (3) rates cannot be negative.
The Dodd-Frank Act increased the minimum DRR to 1.35% of insured deposits, which must be reached by September 30, 2020, and provides that in setting the assessment rates necessary to meet the new requirement, the FDIC shall offset the effect of this provision on insured depository institutions with total consolidated assets of less than $10 billion, so that more of the cost of raising the reserve ratio will be borne by the institutions with more than $10 billion in assets. In October 2010, the FDIC adopted a restoration plan to ensure that the DIF reserve ratio reaches 1.35% by September 30, 2020. The FDIC is expected to pursue further rulemaking regarding the method that will be used to reach the reserve ratio of 1.35% so that more of the cost of raising the reserve ratio to 1.35% will be borne by institutions with more than $10 billion in assets. To the extent that any of the Corporation’s subsidiary banks’ assets exceeds $10 billion in the future, such rulemaking could result in an increase in the deposit insurance assessments for such banks.
USA Patriot Act – Anti-terrorism legislation enacted under the USA Patriot Act of 2001 (Patriot Act) expanded the scope of anti-money laundering laws and regulations and imposed significant new compliance obligations for financial institutions, including the Corporation’s subsidiary banks. These regulations include obligations to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. Among other requirements, the Patriot Act and the related regulations impose the following requirements with respect to financial institutions:

- Establishment of anti-money laundering programs.
- Establishment of a program specifying procedures for obtaining identifying information from customers seeking to open new accounts, including verifying the identity of customers within a reasonable period of time.
- Establishment of enhanced due diligence policies, procedures and controls designed to detect and report money laundering.
- Prohibition on correspondent accounts for foreign shell banks and compliance with recordkeeping obligations with respect to correspondent accounts of foreign banks.

Failure to comply with the Patriot Act’s requirements could have serious legal, financial, regulatory and reputational consequences. In addition, bank regulators will consider a holding company’s effectiveness in combating money laundering when ruling on BHCA and Bank Merger Act applications. The Corporation has adopted policies, procedures and controls to address compliance with the Patriot Act and will continue to revise and update its policies, procedures and controls to reflect required changes. The Corporation and its banking subsidiaries are currently subject to regulatory enforcement orders (the Regulatory Orders) issued by banking regulatory agencies relating to identified deficiencies in a largely centralized compliance program (the BSA/AML Compliance Program) designed to comply with the Bank Secrecy Act, the Patriot Act and related anti-money laundering regulations (the BSA/AML Requirements). The 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. See Part I, Item 1A "Risk Factors - The Corporation and its bank subsidiaries are subject to regulatory enforcement orders requiring improvement in compliance functions and remedial actions," Part I, Item 3 "Legal Proceedings - Regulatory Matters," Part II, Item 7 "Management’s Discussion and Analysis of Financial Condition and Results of Operations - Compliance, Risk Management and Information Technology Infrastructures," Part II, Item 8, "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - Note K - Regulatory Matters," and Part II, Item 9B "Other Information" for additional information regarding the Regulatory Orders.

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

Community Reinvestment – Under the Community Reinvestment Act (CRA), each of the Corporation's subsidiary banks has a continuing and affirmative obligation, consistent with its safe and sound operation, to ascertain and meet the credit needs of its entire community, including low and moderate income areas. The CRA does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA requires an institution’s primary federal regulator, in connection with its examination of the institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The assessment focuses on three tests: (1) a lending test, to evaluate the institution’s record of making loans, including community development loans, in its designated assessment areas; (2) an investment test, to evaluate the institution’s record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and areas and small businesses; and (3) a service test, to evaluate the institution’s delivery of banking services throughout its CRA assessment area, including low and moderate income areas. The CRA also requires all institutions to make public disclosure of their CRA ratings. As of December 31, 2014, all of the Corporation’s subsidiary banks are rated as "satisfactory." Regulations require that the Corporation’s subsidiary banks publicly disclose certain agreements that are in fulfillment of CRA. None of the Corporation’s subsidiary banks are party to any such agreements at this time.

Standards for Safety and Soundness – Pursuant to the requirements of FDICIA, as amended by the Riegle Community Development and Regulatory Improvement Act of 1994, the federal bank regulatory agencies adopted guidelines establishing general standards relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. An institution must submit a compliance plan to its regulator if it is notified that it is not satisfying any such safety and soundness standards. If the institution fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance plan, the regulator must issue an order directing corrective actions and may issue an order directing other actions of the types to which a significantly undercapitalized institution is subject under the "prompt corrective action" provisions of FDICIA. If the institution fails to comply with such an order, the regulator may seek to enforce such order in judicial proceedings and to impose civil money penalties.

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

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

Federal Reserve System – FRB regulations require depository institutions to maintain cash reserves against their transaction accounts (primarily NOW and demand deposit accounts). A reserve of 3% is to be maintained against aggregate transaction accounts between $13.3 million and $89.0 million (subject to adjustment by the FRB) plus a reserve of 10% (subject to adjustment by the FRB between 8% and 14%) against that portion of total transaction accounts in excess of $89.0 million. The first $13.3 million of otherwise reservable balances (subject to adjustment by the FRB) is exempt from the reserve requirements. Each of the Corporation’s bank subsidiaries is in compliance with the foregoing requirements.

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

FHLB members are also authorized to borrow from the Federal Reserve "discount window," but FRB regulations require institutions to exhaust all FHLB sources before borrowing from a Federal Reserve Bank.

Sarbanes-Oxley Act of 2002 – The Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley), which was signed into law in July 2002, impacts all companies with securities registered under the Securities Exchange Act of 1934, including the Corporation. Sarbanes-Oxley created new requirements in the areas of corporate governance and financial disclosure including, among other things, (i) increased responsibility for Chief Executive Officers and Chief Financial Officers with respect to the content of filings with the SEC; (ii) enhanced requirements for audit committees, including independence and disclosure of expertise; (iii) enhanced requirements for auditor independence and the types of non-audit services that auditors can provide; (iv) accelerated filing requirements for SEC reports; (v) disclosure of a code of ethics; (vi) increased disclosure and reporting obligations for companies, their directors and their executive officers; and (vii) new and increased civil and criminal penalties for violations of securities laws. Many of the provisions became effective immediately, while others became effective as a result of rulemaking procedures delegated by Sarbanes-Oxley to the SEC.

Section 404 of Sarbanes-Oxley requires management to issue a report on the effectiveness of its internal controls over financial reporting. In addition, the Corporation's independent registered public accountants are required to issue an opinion on the effectiveness of the Corporation's internal control over financial reporting. These reports can be found in Item 8, "Financial Statements and Supplementary Data." Certifications of the Chief Executive Officer and the Chief Financial Officer as required by Sarbanes-Oxley and the resulting SEC rules can be found in the "Signatures" and "Exhibits" sections.

Executive Officers

As of December 31, 2014, the executive officers of the Corporation are as follows:

Name	Age	Office Held and Term of Office
E. Philip Wenger	57	Director of the Corporation since 2009. Mr. Wenger was appointed Chairman of the Board, President and Chief Executive Officer of the Corporation in January 2013. He previously served as President and Chief Operating Officer of the Corporation from 2008 to 2012, a Director of Fulton Bank, N.A. from 2003 to 2009, Chairman of Fulton Bank, N.A. from 2006 to 2009 and has been employed by the Corporation in a number of positions since 1979.
Patrick S. Barrett	51	Senior Executive Vice President and Chief Financial Officer of the Corporation effective January 1, 2014. Mr. Barrett joined the Corporation as Senior Executive Vice President in November 2013. He held multiple roles with SunTrust Banks, Inc. in the three years prior to joining the Corporation, ending as Chief Financial Officer of SunTrust Wholesale Bank from 2011 to 2013. Mr. Barrett previously held a number of senior finance and managing director roles with JPMorgan Chase & Co. from 2003 to 2010, ending as Managing Director - Investor Relations. He spent 10 years as a Certified Public Accountant with Deloitte Touche Tohmatsu from 1993 to 2003, ending as an Audit Partner, Financial Services in 2003.
Craig H. Hill	59	Senior Executive Vice President of the Corporation since January 2006. Executive Vice President and Director of Human Resources from 1999 through 2005. Mr. Hill serves as the Corporation's Senior Executive Vice President of Human Resources, Corporate Communications and Administrative Services.
Meg R. Mueller	50	Senior Executive Vice President and Chief Credit Officer of the Corporation since July 2013. Executive Vice President and Chief Credit Officer since 2010. Ms. Mueller has been employed by the Corporation in a number of positions since 1996.
Curtis J. Myers	46	Senior Executive Vice President of the Corporation; and President and Chief Operating Officer of Fulton Bank, N.A. since July 2013. President and Chief Operating Officer of Fulton Bank, N.A. and Executive Vice President of the Corporation since August 2011. President and Chief Operating Officer of Fulton Bank, N.A. since February 2009. Mr. Myers has been employed by Fulton Bank, N.A. in a number of positions since 1990.
Craig A. Roda	58	Senior Executive Vice President of Community Banking of the Corporation since July 2011; and Chairman and Chief Executive Officer of Fulton Bank, N.A., since February 2009. Chief Executive Officer and President of Fulton Bank, N.A. from 2006 to 2009.
Philmer H. Rohrbaugh	62	Senior Executive Vice President and Chief Risk Officer of the Corporation since November 2012. Mr. Rohrbaugh was a managing partner of KPMG, LLP's Chicago office from 2009 to 2012; Vice Chairman Industries and part of the U.S. Management Committee of KPMG from 2006 to 2009; and joined KPMG in 2002. He has more than 25 years of experience in various management positions. Mr. Rohrbaugh is a Certified Public Accountant and currently serves as a director of a public manufacturing company.

Angela M. Sargent	47	Senior Executive Vice President and Chief Information Officer of the Corporation since July 2013. Executive Vice President and Chief Information Officer since 2002. Ms. Sargent has been employed by the Corporation in a number of positions since 1992.
James E. Shreiner	65	Retired effective December 31, 2014. Mr. Shreiner served as Senior Executive Vice President of the Corporation since January 2006 and Executive Vice President of the Corporation and Executive Vice President of Fulton Bank, N.A. from 2000 to 2005. Mr. Shreiner served as Senior Executive Vice President of Operations and Credit.

Item 1A. Risk Factors

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

INTEREST RATE AND LIQUIDITY RISKS.

The Corporation is subject to interest rate risk.

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

Net interest income is the difference between interest earned on interest earning assets and interest paid on interest-bearing liabilities. Net interest income is the most significant component of the Corporation's net income, accounting for approximately 76% of total revenues in 2014. The narrowing of interest rate spreads, the difference between interest rates earned on loans and investments and interest rates paid on deposits and borrowings, has adversely affected the Corporation's net interest income.

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

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

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

Movements in interest rates can cause demand for some of the Corporation’s products and services to be cyclical. As a result, the Corporation may need to periodically scale certain of its businesses, including its personnel, to match increases and decreases in demand and volume. The need to change the scale of these businesses is challenging and there is often a lag between changes in the businesses and the Corporation’s reaction to these changes. For example, demand for residential mortgage loans has historically tended to increase during periods when interest rates were declining and to decrease during periods when interest rates were rising.

Changes in interest rates or disruption in liquidity markets may adversely affect the Corporation’s sources of funding.

The Corporation must maintain sufficient funds to respond to the needs of its depositors and borrowers. The Corporation’s liquidity management emphasizes core deposits and repayments and maturities of loans and investments as its primary sources of liquidity. These primary sources of liquidity can be supplemented by FHLB advances, borrowings from the Federal Reserve Bank, proceeds from the sales of loans and liquidity resources of the holding company, including capital markets funding. Lower-cost, core deposits may be adversely affected by changes in interest rates and the supplemental sources of liquidity are often more expensive and may not always be as readily available. Technology and other factors have also made it more convenient for customers to transfer low-cost deposits into higher-cost deposits or into alternative investments or deposits of other banks or non-bank providers; these funding changes can also increase the Corporation’s funding costs and/or create liquidity challenges.

While the Corporation attempts to manage its liquidity through various techniques, assumptions and estimates used do not always accurately forecast the impact of changes in customer behavior. For example, the Corporation may face limitations on its ability to fund loan growth if customers move funds out of the Corporation's subsidiary banks' deposit accounts in response to increases in interest rates. In the current, low interest rate environment, customers are less sensitive to interest rates when making deposit decisions. However, should interest rates rise, customers may become more aware of interest rate differences and alternative opportunities, which could cause them to move funds into those other opportunities and out of deposit accounts maintained by the Corporation's bank subsidiaries.

Market conditions have been negatively impacted by disruptions in the liquidity markets in the past, and such disruptions or an adverse change in the Corporation's results of operations or financial condition could, in the future, have a negative impact on secondary sources of liquidity. See Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," "Interest Rate Risk, Asset/Liability Management and Liquidity."

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

Liquidity must also be managed at the holding company level. Banking regulators carefully scrutinize liquidity at the holding company level, in addition to consolidated and bank liquidity levels. For safety and soundness reasons, banking regulations limit the amount of cash that can be transferred from 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. These factors have affected some institutions' ability to pay dividends and have required some institutions to establish borrowing facilities at the holding company level.

LEGAL, COMPLIANCE AND REPUTATIONAL RISKS.

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

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

The Corporation has six banking subsidiaries and the Corporation and its subsidiaries are subject to regulation by a variety of federal and state banking regulatory agencies. This corporate structure presents challenges, specifically, the need for compliance with different, and potentially inconsistent, regulatory requirements. The time, expense and internal and external resources associated with regulatory compliance continue to increase, and balancing the need to address regulatory changes and effectively manage overall non-interest expenses has become more challenging than it has been in the past. Thus, the Corporation’s compliance obligations increase the Corporation's expense, require increasing amounts of management's attention and can be a disadvantage from a competitive standpoint with respect to non-regulated competitors and larger bank competitors. The Corporation has announced that it is developing plans to seek regulatory approval to begin the process of consolidating its six subsidiary banks. This process is expected to eventually result in the Corporation conducting its core banking business through a single subsidiary bank. The timing of the commencement of this multi-year process will depend significantly on the Corporation and its banking subsidiaries making necessary progress in enhancing a largely centralized compliance program designed to comply with the requirements of the Bank Secrecy Act, the USA Patriot Act of 2001 and related anti-money laundering regulations (collectively, the BSA/AML Requirements), and establishing, to the satisfaction of the Corporation’s banking regulatory agencies, that those enhancements are sustainable to achieve compliance with the regulatory enforcement orders issued to the Corporation and its subsidiary banks by their respective banking regulatory agencies relating to identified deficiencies in that compliance program. There is no assurance that the regulatory approvals required for such consolidation could be obtained or that such consolidation would significantly reduce the time, expense and internal and external resources associated with regulatory compliance.

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

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

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

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

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

Nonetheless, during 2014, the Corporation and five of its banking subsidiaries became subject to regulatory enforcement orders issued by banking regulatory agencies relating to identified deficiencies in a largely centralized compliance program (the BSA/AML Compliance Program) designed to comply with the BSA/AML Requirements (the 2014 Regulatory Orders). The 2014 Regulatory Orders are described in Current Reports on Form 8-K filed with the Securities and Exchange Commission on July 18, 2014, September 9, 2014, and December 29, 2014.

On February 25, 2015, Fulton Bank of New Jersey (FBNJ), the Corporation’s sixth banking subsidiary, entered into a Stipulation and Consent to the Issuance of a Consent Order with the Federal Deposit Insurance Corporation (the FDIC) consenting to the issuance by the FDIC of a Consent Order (the 2015 FDIC Consent Order). In addition, on February 25, 2015, FBNJ entered into a Consent Order with the Commissioner of Banking and Insurance for the State of New Jersey (the New Jersey Consent Order, and, together with the FDIC Consent Order, the 2015 Consent Orders). See Part II, Item 9B "Other Information" for additional information regarding the 2015 Consent Orders.

The 2014 Regulatory Orders and the 2015 Consent Orders (collectively, 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. During the year ended December 31, 2014, the Corporation incurred approximately $8 million of outside services expense related to strengthening and enhancing the BSA/AML Compliance Program. Additional expenses and investments have been incurred as the Corporation further 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.

As noted below, recruitment and retention of the personnel necessary to strengthen and enhance the Corporation's BSA/AML Compliance Program can be challenging. Further, the Corporation's employees have been required to adopt and embrace governance practices necessary to strengthen the Corporation's risk management framework and regulatory compliance programs, which can pose additional challenges in retaining and motivating the Corporation's employees.

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

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

On July 21, 2010, the President of the United States signed into law the Dodd-Frank Act. The scope of the Dodd-Frank Act impacted many aspects of the financial services industry, and the Act requires the development and adoption of many regulations, a significant number of which have not yet been adopted or fully implemented. The effects of the Dodd-Frank Act on the financial services industry depends, in large part, upon the extent to which regulators exercise the authority granted to them under the Dodd-Frank Act and the approaches taken in implementing regulations. The delay in the implementation of many of the regulations mandated by the Dodd-Frank Act on the timelines contemplated by such legislation has resulted in a lack of clear regulatory guidance to banks with respect to certain matters. The resulting uncertainty can cause banks to take a cautious approach to business initiatives and planning. Additional uncertainty regarding the effect of the Dodd-Frank Act exists due to court decisions and the potential for additional legislative changes to the Dodd-Frank Act.

The Corporation, as well as the broader financial services industry, is continuing to assess the potential impact of the Dodd-Frank Act (and its possible impact on customers' behaviors) on its business and operations and, at this stage, the extent of the impact cannot be fully determined with any degree of certainty. However, the Corporation has been impacted, and will likely continue to be in the future, by the so-called Durbin Amendment to the Dodd-Frank Act, which reduced debit card interchange revenue of banks, and revised FDIC deposit insurance assessments. The Corporation has also been impacted by the Dodd-Frank Act in the areas of corporate governance, capital requirements, risk management, stress testing and regulation under consumer protection laws.

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

Pursuant to the Dodd-Frank Act, the CFPB issued a series of final rules in January 2013 related to mortgage loan origination and mortgage loan servicing. These final rules, most provisions of which became effective January 10, 2014, prohibit creditors, such as the Corporation's bank subsidiaries, from extending residential mortgage loans without regard for the consumer's ability to repay, provide certain safe harbor protections for the origination of loans that meet the requirements for a "qualified mortgage" and add restrictions and requirements to residential mortgage origination and servicing practices. In addition, these rules restrict the imposition of prepayment penalties and compensation practices relating to residential mortgage loan origination. Compliance with these rules will likely increase the Corporation’s overall regulatory compliance costs and required the Corporation’s bank subsidiaries to change their underwriting practices. Moreover, these rules may adversely affect the volume of mortgage loans that the Corporation’s bank subsidiaries originate and may subject those subsidiaries to increased potential liability related to their residential loan origination activities. In December 2013, the CFPB issued final rules revising and integrating previously separate disclosures required under the Truth in Lending Act and the Real Estate Settlement Procedures Act in connection with closed-end consumer mortgages. These final rules will become effective August 1, 2015, and compliance with these rules will require the Corporation to adapt its systems and procedures to accommodate the use of new disclosure forms to be provided to closed-end consumer mortgage borrowers at the time of application and at the time of closing for those loans within the timeframes required under these new rules. Compliance with these new rules may increase the Corporation’s overall regulatory compliance costs. See also Part I, Item 1, "Business," "Supervision and Regulation."

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

The Dodd-Frank Act imposes additional regulatory requirements on institutions with $10 billion or more in assets. The Corporation's largest bank subsidiary, Fulton Bank, N.A., had $9.5 billion in assets as of December 31, 2014. Additional growth (or the consolidation of the Corporation’s subsidiary banks as discussed above) that results in Fulton Bank, N.A. having assets of $10 billion or more would subject Fulton Bank, N.A. to the following:

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

- Stress testing requirements;
- A modified methodology for calculating FDIC insurance assessments and potentially higher assessment rates as a result of institutions with $10 billion or more in assets being required to bear a greater portion of the cost of raising the FDIC reserve ratio to 1.35% as required by the Dodd-Frank Act;
- Heightened compliance standards under the Volcker Rule; and
- Enhanced supervision as a larger financial institution.

See also Part I, Item 1, "Business," "Supervision and Regulation."

Negative publicity could damage the Corporation’s reputation.

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

STRATEGIC AND EXTERNAL RISKS.

The Corporation is in the process of transforming its business model and this transformation may not be successful.

The Corporation historically has followed a “super-community” banking strategy under which the Corporation has operated its subsidiary banks autonomously to maximize the advantages of the community banking model in serving the needs to its customers. Reliance on this model has posed challenges to the Corporation's efforts to manage risk efficiently and effectively through a centralized risk management and compliance function. As a result, over the next several years, the Corporation plans to transition to a business model that will be oriented less on geographic boundaries and more focused on alignment with the customer segments the Corporation serves.

The transformation of the Corporation’s business model may have some or all of the following unintended effects:

- The efficiencies sought may not be achieved;
- Some customers may not receive the change in business model in a positive manner and relationships with these customers may be jeopardized;
- The changes in organizational structure and the evolution of the Corporation’s culture that will be required to support the transition to the new business model may lead to dissatisfaction among employees which could make it more difficult for the Corporation to retain key employees;
- The transition to the new business model may create operational and other challenges that are disruptive to the Corporation’s business; and
- Expenses will be incurred in the implementation of the new business model and the implementation process may distract the Corporation from the achievement of other fundamental business objectives.

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

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

- In the current, prolonged low interest rate environment, the Corporation’s net interest margin has been compressed and it is possible that a net interest margin that is lower than historical levels could continue for some time. As a result, income growth will likely need to come from growth in the volume of earning assets, particularly loans, and an increase in non-interest income. However, customer demand and competition could make such income growth difficult to achieve;
- In recent years, reductions in the Corporation’s provision for credit losses have had a significant favorable impact on the Corporation’s earnings, in comparison to earlier years, during which credit losses and the provision for credit losses were elevated. Significant further reductions in the provision for loan losses are not likely;
-

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

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

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

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

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

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

In the past, the Corporation supplemented its internal growth with strategic acquisitions of banks, branches and other financial services companies. If the purchase price of an acquired company exceeds the fair value of the company's net assets, the excess is carried on the acquirer's balance sheet as goodwill. As of December 31, 2014, the Corporation had $530.6 million of goodwill recorded on its balance sheet. The Corporation is required to evaluate goodwill for impairment at least annually. Write-downs of the amount of any impairment, if necessary, are to be charged to earnings in the period in which the impairment occurs. There can be no assurance that future evaluations of goodwill will not result in impairment charges.

ECONOMIC AND CREDIT RISKS.

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

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

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

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

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. While the Corporation believes that its allowance for credit losses as of December 31, 2014 is sufficient to cover incurred losses in the loan portfolio on that date, the Corporation may be required to increase its provision for credit losses due to changes in the risk characteristics of the loan portfolio, thereby negatively impacting its results of operations.

The allowance for loan losses represents management’s estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. Management’s estimate of losses inherent in the loan portfolio is dependent on the proper application of its methodology for determining its allowance needs. The most critical judgments underpinning that methodology include: the ability to identify potential problem loans in a timely manner; proper collateral valuation of impaired loans evaluated for impairment; proper measurement of allowance needs for pools of loans measured for impairment; and an overall assessment of the risk profile of the loan portfolio.

The Corporation determines the appropriate level of the allowance for credit losses based on many quantitative and qualitative factors, including, but not limited to: the size and composition of the loan portfolio; changes in risk ratings; changes in collateral values; delinquency levels; historical losses; and economic conditions. In addition, as the Corporation's loan portfolio grows, it will generally be necessary to increase the allowance for credit losses through additional provisions, which would adversely impact the Corporation's operating results.

If the Corporation's assumptions and judgments regarding such matters prove to be inaccurate, its allowance for credit losses might not be sufficient, and additional provisions for credit losses might need to be made. Depending on the amount of such provisions for credit losses, the adverse impact of the Corporation's earnings could be material. Furthermore, banking regulators may require the Corporation to make additional provisions for credit losses or otherwise recognize further loan charge-offs or impairments following their periodic reviews of the Corporation's loan portfolio, underwriting procedures and allowance for credit losses. Any increase in the Corporation's allowance for credit losses or loan charge-offs as required by such regulatory authorities could have a material adverse effect on the Corporation's financial condition and results of operations. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Financial Condition - Provision and Allowance for Credit Losses."

Economic downturns and the composition of the Corporation's loan portfolio subject the Corporation to credit risk.

Economic downturns and the composition of the Corporation's loan portfolio subject the Corporation to credit risk.

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

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

Approximately $9.6 billion, or 73.3%, of the Corporation's loan portfolio was in commercial loans, commercial mortgage loans, and construction loans at December 31, 2014. Commercial loans, commercial mortgage loans and construction loans generally involve a greater degree of credit risk than residential mortgage loans and consumer loans because they typically have larger balances and are more affected by adverse conditions in the economy. Because payments on these loans often depend on the successful operation and management of businesses and properties, repayment of such loans may be affected by factors outside the borrower's control, such as adverse conditions in the real estate markets, adverse economic conditions or changes in government regulation. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Financial Condition - Loans."

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

The market value of the Corporation's securities investments, which include municipal securities, auction rate securities, corporate debt securities and equity investments, as well as the revenues the Corporation earns from its trust and investment management services business, are particularly sensitive to price fluctuations and market events. Declines in the values of the Corporation's securities holdings, combined with adverse changes in the expected cash flows from these investments, could result in other-than-temporary impairment charges.

As of December 31, 2014, the Corporation's securities investments included $100.9 million of investments in student loan auction rate certificates (ARCs). Following the failures of periodic auctions for these ARCs, which began in 2008 and have continued since that time, there has not been an active market for these securities. Other than sporadic redemptions and tender offers made by the issuers of these ARCs, these securities are illiquid. Secondary market transactions involving ARCs typically represent forced liquidations or distressed sales and do not provide an accurate basis for determining their fair value. The Corporation does not have the intent to sell the ARCs and does not believe it will more likely than not be required to sell any of the ARCs prior to a recovery of their fair value to amortized cost, which may be at maturity. However, if the Corporation chose to liquidate these securities prior to their maturity, it would likely have to do so at "distressed" sale prices and would likely do so at a loss.

A portion of the Corporation's securities portfolio includes holdings of equity investments, including stocks of publicly traded financial institutions. The portfolio of publicly traded financial institutions includes shares of a single financial institution which, as of December 31, 2014, had a fair value of $30.4 million. The Corporation's holdings of this financial institution constituted approximately 72.7% of the fair value of the Corporation's aggregate holdings of publicly traded financial institutions as of that date.

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

See also Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

OPERATIONAL RISKS.

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

The Corporation is exposed to many types of operational risk, including the risk of human error or fraud by employees and outsiders, unsatisfactory performance by employees and vendors, clerical and record-keeping errors, computer and telecommunications systems malfunctions or failures and reliance on data that may be faulty or incomplete. In an environment characterized by continual, rapid technological change, as discussed below, when the Corporation introduces new products and services, or makes changes to its information technology systems and processes, these operational risks are increased. Any of these operational risks could result in the Corporation's diminished ability to operate one or more of its businesses, financial loss, potential liability to customers, inability to secure insurance, reputational damage and regulatory intervention, which could materially adversely affect the Corporation.

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

The Corporation’s operational risks include risks associated with third-party vendors and other financial institutions.

The Corporation relies upon certain third-party vendors to provide products and services necessary to maintain its day-to-day operations, including, notably, responsibility for the core processing system that services all of the Corporation’s bank subsidiaries. For example, the Corporation's businesses are dependent on its ability to process a large number of increasingly complex transactions; a significant amount of this processing is provided to the Corporation by third-party vendors. Accordingly, the Corporation’s operations are exposed to the risk that these vendors might not perform in accordance with applicable contractual arrangements or service level agreements. The failure of an external vendor to perform in accordance with applicable contractual arrangements or service level agreements could be disruptive to the Corporation’s operations, which could have a material adverse effect on the Corporation’s financial condition and results of operations. Further, third-party vendor risk management has become a point of regulatory emphasis recently. A failure of the Corporation to follow applicable regulatory guidance in this area could expose the Corporation to regulatory sanctions.

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

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

The Corporation’s internal controls may be ineffective.
One critical component of the Corporation’s risk management framework is its system of internal controls. Management regularly reviews and updates the Corporation’s internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide reasonable, but not absolute, assurances that the objectives of the controls are met. Any failure or circumvention of the Corporation’s controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Corporation’s business, results of operations, and financial condition. See Part II, Item 9A, "Controls and Procedures."
Loss of, or failure to adequately safeguard, confidential or proprietary information may adversely affect the Corporation's operations, net income or reputation.
The Corporation regularly collects, processes, transmits and stores significant amounts of its own confidential information, as well as confidential information regarding its customers, employees and others, that is necessary to the conduct of its business. In some cases, this confidential or proprietary information is collected, compiled, processed, transmitted or stored by third parties on behalf of the Corporation. A failure in or breach of the Corporation's operational or information security systems, or those of the Corporation's third-party service providers, as a result of cyber attacks or information security breaches or due to employee error, malfeasance or other disruptions could adversely affect the Corporation’s business, result in the disclosure or misuse of confidential or proprietary information, damage the Corporation’s reputation, increase the Corporation’s costs and/or cause losses and could subject the Corporation to significant regulatory consequences. As a result, cyber security and the continued development and enhancement of the controls and processes designed to protect the Corporation's systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for the Corporation.
The safeguards employed by the Corporation do not provide absolute assurance that mishandling, misuse or loss of the information will not occur, and that if mishandling, misuse or loss of the information did occur, those events will be promptly detected and addressed. As information security risks and cyber threats continue to evolve (and possibly increase as technological developments may further increase cyber threats), the Corporation may be required to expend additional resources to continue to enhance its information security measures and/or to investigate and remediate any information security vulnerabilities.
The Corporation’s insurance includes coverage for so-called "cyber security risks." However, in the event of a breach of data security, the amount of such coverage may prove to be inadequate. Further, such insurance includes deductibles and exclusions which may result in less than full coverage for losses incurred.
The Corporation continually encounters technological change.
The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Corporation’s future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Corporation’s operations. Many of the Corporation’s financial institution competitors have substantially greater resources to invest in technological improvements and new payment services developed and offered by non-financial institution competitors pose an increasing threat to the traditional payment services offered by financial institutions. The Corporation may not be able to effectively implement new technology-driven products and services, be successful in marketing these products and services to its customers, or effectively deploy new technologies to improve the efficiency of its operations. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on the Corporation’s business, financial condition and results of operations.
Further, the costs of new technology, including personnel, can be high in both absolute and relative terms. There can be no assurance, given the past pace of change and innovation, that the Corporation’s technology, either purchased or developed internally, will meet or continue to meet the needs of the Corporation and the needs of its customers.
The Corporation may not be able to attract and retain skilled people.

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

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

RISKS RELATED TO AN INVESTMENT IN THE CORPORATION’S SECURITIES.

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

The Corporation is required by regulatory authorities to maintain adequate levels of capital to support its operations. In 2014, the Corporation issued subordinated debt intended to qualify as Tier 2 capital for regulatory purposes and the Corporation anticipates that current capital levels will satisfy regulatory requirements for the foreseeable future. The Corporation, however, may at some point choose to raise additional capital to support future growth. The Corporation's ability to raise additional capital will depend, in part, on conditions in the capital markets at that time, which are outside of the Corporation's control. Accordingly, the Corporation may be unable to raise additional capital, if and when needed, on terms acceptable to the Corporation, or at all. If the Corporation cannot raise additional capital when needed, its ability to expand operations through internal growth and acquisitions could be materially impacted. In the event of a material decrease in the Corporation's stock price, future issuances of equity securities could result in dilution of existing shareholder interests.

Capital planning has taken on more importance due to regulatory requirements and the Basel III capital standards. Consistent with current regulatory guidance, the Corporation conducts an annual stress test using data as of September 30 of each year and different scenarios provided by the FRB, and reports the results of the stress test to the FRB by March 31 of the following year. Beginning with the results of the stress test reported to the FRB in March 2015, the Corporation will also be required to publicly disclose a summary of the results of the stress test completed under the severely adverse scenario. The Corporation's board of directors and its senior management are required to consider the results of the stress test in the normal course of business, including as part of its capital planning process and the evaluation of the adequacy of its capital. The results of the stress testing process may lead the Corporation to retain additional capital or alter the mix of its capital components. In addition, the implementation of certain regulations with regard to regulatory capital could disproportionately affect the Corporation's regulatory capital position relative to that of its competitors, including those who may not be subject to the same regulatory requirements.

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

The fully phased-in capital standards under the U.S. Basel III Capital Rules require banks to maintain more capital than the minimum levels required under current regulatory capital standards. The new minimum regulatory capital requirements begin to apply to the Corporation on January 1, 2015. The required minimum capital conservation buffer will be phased in incrementally starting on January 1, 2016 and will be fully phased in on January 1, 2019. The failure to meet the established capital requirements could result in the federal banking regulators placing limitations or conditions on the activities of the Corporation or its bank subsidiaries or restricting the commencement of new activities, and such failure could subject the Corporation or its bank subsidiaries to a variety of enforcement remedies, including limiting the ability of the Corporation or its bank subsidiaries to pay dividends, issuing a directive to increase capital and terminating FDIC deposit insurance. In addition, the failure to comply with the capital conservation buffer will result in restrictions on capital distributions and discretionary cash bonus payments to executive officers. As of December 31, 2014, the Corporation believes its current capital levels would meet the fully-phased in minimum capital requirements, including capital conservation buffers, as set forth in the U.S. Basel III Capital Rules. See Part I, Item 1, "Business," "Supervision and Regulation - Capital Requirements."

The Corporation is a holding company and relies on dividends from its subsidiaries for substantially all of its revenue and its ability to make dividends, distributions and other payments.

The Corporation is a separate and distinct legal entity from its banking and nonbanking subsidiaries, and depends on the payment of dividends from its subsidiaries, principally its banking subsidiaries, for substantially all of its revenues. As a result, the

Corporation's ability to make dividend payments on its common stock depends primarily on certain federal and state regulatory considerations and the receipt of dividends and other distributions from its subsidiaries. There are various regulatory and prudential supervisory restrictions, which may change from time to time, that impact the ability of the Corporation’s banking subsidiaries to pay dividends or make other payments to it. There can be no assurance that the Corporation’s banking subsidiaries will be able to pay dividends at past levels, or at all, in the future. If the Corporation does not receive sufficient cash dividends or is unable to borrow from its banking subsidiaries, then the Corporation may not have sufficient funds to pay dividends to its shareholders, repurchase its common stock or service its debt obligations. See Part I, Item 1, "Business," "Supervision and Regulation - Loans and Dividends from Subsidiary Banks."

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

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

Fitch, Inc. and Moody's Investors Service, Inc. continuously evaluate the Corporation and its subsidiaries, and their ratings of the Corporation and its subsidiary's long-term and short-term debt are based on a number of factors, including financial strength, as well as factors not entirely within its and its subsidiaries' control, such as conditions affecting the financial services industry generally. Moreover, Fitch and Moody's have indicated that they are evaluating the impact of the Dodd-Frank Act on the rating support assumptions currently included in their methodologies. In light of these reviews and the continued focus on the financial services industry generally, the Corporation and its subsidiaries may not be able to maintain their current respective ratings. Ratings downgrades by Fitch or Moody's could have a significant and immediate impact on the Corporation's funding and liquidity through cash obligations, reduced funding capacity and collateral triggers. A reduction in the Corporation's or its subsidiaries' credit ratings could also increase the Corporation's borrowing costs and limit its access to the capital markets. Downgrades in the credit or financial strength ratings assigned to the counterparties with whom the Corporation transacts, could create the perception that the Corporation's financial condition will be adversely impacted as a result of potential future defaults by such counterparties. Additionally, the Corporation could be adversely affected by a general, negative perception of financial institutions caused by the downgrade of other financial institutions. Accordingly, ratings downgrades for other financial institutions could affect the market price of the Corporation's stock and could limit access to or increase its cost of capital.

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table summarizes the Corporation's full-service branch properties, by subsidiary bank, as of December 31, 2014. Remote service facilities (mainly stand-alone automated teller machines) are excluded.

Subsidiary Bank	Owned	Leased	Total Branches
Fulton Bank, N.A.	45	70	115
Fulton Bank of New Jersey	38	32	70
The Columbia Bank	9	24	33
Lafayette Ambassador Bank	5	16	21
FNB Bank, N.A.	6	2	8
Swineford National Bank	5	2	7
Total	108	146	254

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

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

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

Item 3. Legal Proceedings

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

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 position, the operating results and/or the liquidity of the Corporation. However, legal proceedings are often unpredictable, and the actual results of such proceedings cannot be determined with certainty.

Regulatory Matters

In July 2014, three wholly owned banking subsidiaries of the Corporation, Fulton Bank, N.A., Swineford National Bank and FNB Bank, N.A., each entered into a Stipulation and Consent to the Issuance of a Consent Order with their primary federal banking regulatory agency, the Office of the Comptroller of the Currency (OCC), consenting to the issuance by the OCC of a Consent Order (collectively, together with each Stipulation and Consent to the Issuance of a Consent Order, the OCC Consent Orders).

The OCC Consent Orders relate 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), as disclosed by the Corporation in a Current Report on Form 8-K filed with the SEC on July 18, 2014. The OCC Consent Orders require, among other things, that the banking subsidiaries review, assess and take actions to strengthen and enhance their the BSA/AML Compliance Program, including elements of the BSA/AML Compliance Program relating to: internal controls designed to ensure compliance with the BSA/AML Requirements; the periodic risk assessment process relating to the BSA/AML Requirements; customer due diligence procedures; enhanced due diligence procedures for higher-risk customers; procedures for monitoring for, identifying, investigating and reporting suspicious activity, or known or suspected violations of law; the qualifications and sufficiency of staff responsible for carrying out the BSA/AML Compliance Program; and training related to the BSA/AML Requirements.

In September 2014, the Corporation and its wholly owned banking subsidiary, Lafayette Ambassador Bank (Lafayette), entered into a Cease and Desist Order Issued Upon Consent (the Cease and Desist Order) with their primary federal banking regulatory agency, the Board of Governors of the Federal Reserve System (the FRB), as disclosed by the Corporation in a Current Report on Form 8-K filed with the SEC on September 9, 2014. The Cease and Desist Order relates to identified deficiencies in the BSA/AML Compliance Program, which was designed to comply with the BSA/AML Requirements. The requirements of the Cease and Desist Order are similar to the requirements of the OCC Consent Orders. In addition, the Cease and Desist Order requires, among other things, that the Corporation engage an independent third-party firm to conduct a comprehensive assessment of the BSA/AML Compliance Program, and that Lafayette engage an independent third-party firm to conduct a retrospective review of account and transaction activity from January 1, 2014 to June 30, 2014 associated with high-risk customers to determine whether suspicious activity was properly identified and reported in accordance with the BSA/AML Requirements. Based on the results of this transaction review, the FRB may require a review of transactions for additional time periods.

As disclosed by the Corporation in a Current Report on Form 8-K filed with the SEC on December 29, 2014, in December 2014, The Columbia Bank (Columbia), a wholly-owned banking subsidiary of the Corporation, entered into a Stipulation and Consent to the Issuance of a Consent Order with the Federal Deposit Insurance Corporation (the FDIC) consenting to the issuance by the FDIC of a Consent Order (the FDIC Consent Order). In addition, Columbia entered into a Stipulation and Consent to the Issuance of a Consent Order with the Commissioner of Financial Regulation for the State of Maryland (the Commissioner), consenting to the issuance by the Commissioner of a Consent Order, and an Acknowledgement of Adoption of FDIC Consent Order by the Commissioner of Financial Regulation, pursuant to which, the Commissioner and Columbia agreed that, upon issuance of the FDIC Consent Order, the FDIC Consent Order shall be binding between the Commissioner and Columbia with the same legal effect as if the Commissioner had issued a separate Consent Order that included all of the provisions of the FDIC Consent Order. The FDIC Consent Order relates to identified deficiencies in the BSA/AML Compliance Program, which was designed to comply with the BSA/AML Requirements. The requirements of the FDIC Consent Order are similar to the requirements of the OCC Consent Orders and the Cease and Desist Order. In addition, the FDIC Consent Order requires, among other things, that: (i) the Board of Directors of Columbia designate a permanent, qualified and experienced Bank Secrecy Act officer that: is acceptable to the FDIC and the Commissioner; reports monthly to the Board of Directors of Columbia; and is provided with sufficient authority and resources to implement the BSA/AML Compliance Program; and (ii) Columbia conduct a retrospective review of currency transaction aggregation reports and Currency Transaction Reports from May 1, 2013 through the effective date of the FDIC Consent Order to determine whether transactions by a common conductor were properly identified and reported.

On February 25, 2015, Fulton Bank of New Jersey (FBNJ), the Corporation’s sixth wholly owned banking subsidiary, entered into a Stipulation and Consent to the Issuance of a Consent Order with the FDIC consenting to the issuance by the FDIC of a Consent Order (the 2015 FDIC Consent Order). In addition, on February 25, 2015, FBNJ entered into a Consent Order with the Commissioner of Banking and Insurance for the State of New Jersey (the New Jersey Consent Order and, together with the FDIC Consent Order, the 2015 Consent Orders). The 2015 Consent Orders impose substantially identical requirements and relate to identified deficiencies in the BSA/AML Compliance Program, which was designed to comply with the BSA/AML Requirements. The requirements of the 2015 Consent Orders are similar to the requirements of the FDIC Consent Order, except that FBNJ is required to review and enhance its periodic risk assessment process relating to the BSA/AML Requirements, and FBNJ is not required to conduct a retrospective review of past currency transaction aggregation reports and Currency Transaction Reports. See Part II, Item 9B "Other Information" for additional information regarding the 2015 Consent Orders.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Common Stock

As of December 31, 2014, the Corporation had 178.9 million shares of $2.50 par value common stock outstanding held by approximately 36,000 holders of record. The closing price per share of the Corporation’s common stock on December 31, 2014 was $12.36. The common stock of the Corporation is traded on the Global Select Market of The NASDAQ Stock Market under the symbol FULT.

The following table presents the quarterly high and low prices of the Corporation’s stock and per share cash dividends declared for each of the quarterly periods in 2014 and 2013:

	Price Range		Per
	High	Low	Share Dividend
2014			
First Quarter	$13.18	$11.73	$0.08
Second Quarter	13.16	11.35	0.08
Third Quarter	12.71	11.05	0.08
Fourth Quarter	12.67	10.43	0.10
2013			
First Quarter	$11.91	$9.78	$0.08
Second Quarter	11.91	10.30	0.08
Third Quarter	13.08	11.23	0.08
Fourth Quarter	13.40	11.50	0.08

Restrictions on the Payments of Dividends

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

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information about options outstanding under the Corporation’s Amended and Restated Equity and Cash Incentive Compensation Plan and the number of securities remaining available for future issuance under the Corporation's Amended and Restated Equity and Cash Incentive Compensation Plan, the 2011 Directors' Equity Participation Plan and the Employee Stock Purchase Plan as of December 31, 2014:

Plan Category	Equity compensation plans approved by security holders	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column) (1)

Equity compensation plans approved by security holders	4,302,464	$ 12.89	14,004,874
Equity compensation plans not approved by security holders	—	N/A	—
Total	4,302,464	$ 12.89	14,004,874

(1) Consists of 11,393,846 shares that may be awarded under the Amended and Restated Equity and Cash Incentive Compensation Plan, 409,749 shares that may be awarded under the 2011 Directors' Equity Participation Plan and 2,201,279 of shares that may be purchased under the Employee Stock Purchase Plan. Excludes accrued purchase rights under the Employee Stock Purchase Plan as of December 31, 2014 as the number of shares to be purchased is indeterminable until the time shares are issued.

Performance Graph

The following graph shows cumulative investment returns to shareholders based on the assumptions that (A) an investment of $100.00 was made on December 31, 2008, in each of the following: (i) Fulton Financial Corporation common stock; (ii) the stock of all companies on the NASDAQ Bank Index; (iii); the stock all companies on the Standard and Poor's 500 index (S&P 500); and (B) all dividends were reinvested in such securities over the past five years. The graph is not indicative of future price performance.

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

	Year Ending December 31					
Index	2009	2010	2011	2012	2013	2014
Fulton Financial Corporation	$100.00	$120.02	$116.25	$117.33	$164.07	$159.38
S&P 500	$100.00	$115.06	$117.49	$136.30	$180.44	$205.14
NASDAQ Bank Index	$100.00	$114.16	$102.17	$121.26	$171.86	$180.31

Issuer Purchases of Equity Securities

The following table presents the Corporation's monthly repurchases of its common stock during the fourth quarter of 2014:

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 Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2014 to October 31, 2014	—	—	—	—
November 1, 2014 to November 30, 2014	6,509,357	$12.29	6,509,357	1,627,340
December 1, 2014 to December 31,2014	—	—	—	1,627,340

In November 2014, the Corporation entered into an accelerated share repurchase agreement (ASR) with a third party to repurchase $100 million of shares of its common stock. Under the terms of the ASR, the Corporation paid $100 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. The final number of shares of to be repurchased under the ASR will depend upon the daily volume-weighted average prices of the Corporation’s shares, less a discount, over the term of the ASR. The ASR contains customary terms for such transactions, including mechanisms to determine the number of shares or the amount of cash that will be delivered at settlement, circumstances under which adjustments may be made to the transaction, circumstances under which the transaction may be terminated prior to its scheduled maturity and customary representations and warranties made by the parties. Final settlement of the ASR is scheduled for no later than April 17, 2015, and may occur earlier at the option of the third party.

Item 6. Selected Financial Data
5-YEAR CONSOLIDATED SUMMARY OF FINANCIAL RESULTS
(dollars in thousands, except per-share data)

	2014	2013	2012	2011	2010
SUMMARY OF INCOME					
Interest income	$596,078	$609,689	$647,496	$693,698	$745,373
Interest expense	81,211	82,495	103,168	133,538	186,627
Net interest income	514,867	527,194	544,328	560,160	558,746
Provision for credit losses	12,500	40,500	94,000	135,000	160,000
Investment securities gains, net	2,041	8,004	3,026	4,561	701
Non-interest income, excluding investment securities gains	165,338	179,660	207,171	182,932	181,548
Gain on sale of Global Exchange Division	—	—	6,215	—	—
Non-interest expense	459,246	461,433	449,294	416,242	408,254
Income before income taxes	210,500	212,925	217,446	196,411	172,741
Income taxes	52,606	51,085	57,601	50,838	44,409
Net income	157,894	161,840	159,845	145,573	128,332
Preferred stock dividends and discount accretion	—	—	—	—	(16,303)
Net income available to common shareholders	$157,894	$161,840	$159,845	$145,573	$112,029
PER COMMON SHARE					
Net income (basic)	$0.85	$0.84	$0.80	$0.73	$0.59
Net income (diluted)	0.84	0.83	0.80	0.73	0.59
Cash dividends	0.34	0.32	0.30	0.20	0.12
RATIOS					
Return on average assets	0.93 %	0.96 %	0.98 %	0.90 %	0.78 %
Return on average common shareholders’ equity	7.62	7.88	7.79	7.45	6.29
Return on average tangible common shareholders’ equity (1)	10.31	10.76	10.73	10.54	9.39
Net interest margin	3.39	3.50	3.76	3.90	3.80
Efficiency ratio (1)	65.65	63.39	57.61	54.27	53.32
Dividend payout ratio	40.48	38.55	37.50	27.40	20.34
PERIOD-END BALANCES					
Total assets	$17,124,767	$16,934,634	$16,533,097	$16,375,174	$16,280,005
Investment securities	2,323,371	2,568,434	2,721,082	2,596,347	2,763,951
Loans, net of unearned income	13,111,716	12,782,220	12,146,971	11,971,223	11,935,128
Deposits	13,367,506	12,491,186	12,484,163	12,535,015	12,396,641
Short-term borrowings	329,719	1,258,629	868,399	597,033	674,077
Federal Home Loan Bank (FHLB) advances and long-term debt	1,139,413	883,584	894,253	1,040,149	1,119,450
Shareholders’ equity	1,996,665	2,063,187	2,081,656	1,992,539	1,880,389
AVERAGE BALANCES					
Total assets	$16,959,507	$16,811,337	$16,257,776	$16,114,343	$16,436,457
Investment securities	2,480,454	2,718,174	2,766,552	2,637,130	2,856,171
Loans, net of unearned income	12,885,180	12,578,524	11,968,567	11,906,447	11,960,262

Deposits	12,867,663	12,473,184	12,392,580	12,455,065	12,351,190
Short-term borrowings	832,839	1,196,323	690,883	495,791	587,602
FHLB advances and long-term debt	965,601	889,461	933,727	1,034,475	1,326,449
Shareholders’ equity	2,071,640	2,053,821	2,050,994	1,953,396	1,977,166

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

Supplemental Reporting of Non-GAAP Based Financial Measures

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

	2014	2013	2012	2011	2010
	(in thousands, except per share data and percentages)				
Return on average common shareholders' equity (tangible)					
Net income	$157,894	$161,840	$159,845	$145,573	$112,029
Plus: Intangible amortization, net of tax	818	1,584	1,970	2,767	3,406
Numerator	$158,712	$163,424	$161,815	$148,340	$115,435
Average common shareholders' equity	$2,071,640	$2,053,821	$2,050,994	$1,953,396	$1,780,148
Less: Average goodwill and intangible assets	(532,425)	(534,431)	(542,600)	(545,920)	(550,271)
Average tangible shareholders' equity (denominator)	$1,539,215	$1,519,390	$1,508,394	$1,407,476	$1,229,877
Return on average common shareholders' equity (tangible), annualized	10.31%	10.76%	10.73%	10.54%	9.39%
Efficiency ratio					
Non-interest expense	$459,246	$461,433	$449,294	$416,242	$408,254
Less: Intangible amortization	(1,259)	(2,438)	(3,031)	(4,257)	(5,240)
Numerator	$457,987	$458,995	$446,263	$411,985	$403,014
Net interest income (fully taxable equivalent) (1)	$532,322	$544,474	$561,190	$576,232	$574,257
Plus: Total Non-interest income	167,379	187,664	216,412	187,493	182,249
Less: Investment securities gains, net	(2,041)	(8,004)	(3,026)	(4,561)	(701)
Denominator	$697,660	$724,134	$774,576	$759,164	$755,805
Efficiency ratio	65.65%	63.39%	57.61%	54.27%	53.32%
Non-performing assets to tangible common shareholders' equity and allowance for credit losses					
Non-performing assets (numerator)	$150,504	$169,329	$237,199	$317,331	$361,731
Tangible common shareholders' equity	$1,464,862	$1,530,111	$1,546,093	$1,448,330	$1,332,410
Plus: Allowance for credit losses	185,931	204,917	225,439	258,177	275,498

Tangible common shareholders' equity and allowance for credit losses (denominator)	$1,650,793	$1,735,028	$1,771,532	$1,706,507	$1,607,908
Non-performing assets to tangible common shareholders' equity and allowance for credit losses	9.12 %	9.76 %	13.39 %	18.60 %	22.50 %

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

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations
This Management’s Discussion and Analysis of Financial Condition and Results of Operations (Management’s Discussion) relates to Fulton Financial Corporation (the Corporation), a financial holding company registered under the Bank Holding Company Act and incorporated under the laws of the Commonwealth of Pennsylvania in 1982, and its wholly owned subsidiaries. Management’s Discussion should be read in conjunction with the consolidated financial statements and other financial information presented in this report.

FORWARD-LOOKING STATEMENTS

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

OVERVIEW AND OUTLOOK

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

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

	2014		2013	
Net income (in thousands)	$157,894		$161,840	
Diluted net income per share	$0.84		$0.83	
Return on average assets	0.93	%	0.96	%
Return on average equity	7.62	%	7.88	%
Return on average tangible equity (1)	10.31	%	10.76	%
Net interest margin (2)	3.39	%	3.50	%
Efficiency ratio (1)	65.65	%	63.39	%

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

(2) 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.

Highlights of 2014 included diluted earnings per share growth, average loan and core deposit growth, asset quality improvements, a decrease in non-interest expenses and continued strong capital levels despite revenue growth challenges resulting primarily from the persistent low interest rate environment. Details were as follows:

- Net Income Per Share Growth - Diluted net income per share increased $0.01, or 1.2%, to $0.84 per diluted share, compared to $0.83 in 2013. This increase was due to a 7.2 million, or 3.7%, decrease in weighted average diluted shares outstanding as net income decreased $3.9 million, or 2.4%, in comparison to 2013. The decrease in net income was driven largely by a $12.3 million, or 2.3%, decrease in net interest income, a $20.3 million, or 10.8%, decrease in non-interest income, mainly in mortgage banking income, partially offset by a $28.0 million, or 69.1%, decrease in the provision for credit losses and a $2.2 million, or 0.5%, decrease in non-interest expense.

- Loan Growth and Net Interest Margin Compression - Average loans increased $306.7 million, or 2.4%, in comparison to 2013, with notable increases in commercial mortgages, residential mortgages and construction loans. The Corporation's loan growth occurred throughout most of its markets and after a slow weather-related start to 2014, full-year loan growth was modest and ended just short of the Corporation's targeted 2014 growth rate of 3% to 7%. The Corporation's outlook for 2015 anticipates an annual average loan growth rate of 3% to 7%.

During 2014, net interest margin compression continued at a modest pace, decreasing 11 basis points to 3.39% in 2014 from 3.50% in 2013. Net interest margin compression resulted from the decline in yields on interest-earning assets as the cost of interest-bearing liabilities was unchanged in comparison to 2013. The Corporation anticipates that net interest margin compression will continue in 2015, at a rate of 0 to 4 basis points per quarter, on average, based on the current interest rate environment.

- Asset Quality - Overall asset quality improved in 2014, with decreases in non-performing loans, net charge-offs and overall delinquency levels resulting in a 69.1% decrease in the provision for credit losses to $12.5 million. It is expected that this modest provision for credit losses will continue for 2015, although provisions could be impacted by the performance of individual credits.

- Core Deposit Growth - Average demand and savings deposit accounts increased $530.7 million, or 5.7%, in comparison to 2013. Overall average deposit growth outpaced loan growth, which enhanced the Corporation's funding position by reducing the average loan-to-deposit ratio to 100.1% for the year ended December 31, 2014. Annual average growth in deposits during 2015 is expected to be in the range of 3% to 7%.

- Non-Interest Income - Non-interest income decreased $20.3 million, or 10.8%, in comparison to 2013, driven by a $13.5 million, or 44.2%, decrease in mortgage banking income, due primarily to lower volumes, a $6.1 million, or 21.5%, decrease in overdraft fees, and a $6.0 million, or 74.5%, decrease in gains on sales of investment securities. Barring any regulatory intervention on products or pricing, in 2015 the Corporation anticipates an annual mid- to high single digit annual growth rate in non-interest income, excluding the impact of securities gains. This forecasted growth is based on an expected increase in mortgage banking income as well as higher fee income generated from growing deposit balances.

- Non-Interest Expense - Non-interest expense decreased $2.2 million, or 0.5%, in comparison to 2013 driven largely by decreases in other real estate owned and operating risk loss and the impact of certain cost savings initiatives implemented in early 2014. Partially offsetting these decreases was an increase in outside consulting services related to the regulatory compliance and risk management efforts discussed in further detail below.

In 2014, the Corporation implemented a series of initiatives which reduced non-interest expenses in 2014 by approximately $7 million, or an annualized rate of approximately $8 million. These initiatives included the consolidation of 13 branches, streamlining of subsidiary bank management structures and other employee compensation and benefit reductions.

The branch consolidations resulted in the transfer of deposits, employees and other branch resources to existing branch locations. During 2014, implementation costs incurred totaled $2.1 million, consisting mainly of lease termination costs and the write-off of leasehold improvements. Total expense reductions realized in 2014 as a result of the branch consolidations were approximately $2.4 million.

The streamlining of subsidiary bank management structures resulted in the elimination of five subsidiary bank divisional executive positions, while other employee compensation and benefit reductions were realized from changes to certain employee benefits plans, most notably an amendment to the postretirement benefits plan (Postretirement Plan). During 2014, $1.1 million of net implementation gains were recognized from these actions.

The Corporation has begun to implement additional cost savings initiatives for 2015, including the consolidation of 9 branches and compensation and benefit reductions, projected to reduce non-interest expense by approximately $4.6 million annually. Implementation costs associated with these initiatives are projected to be $1.7 million. The outlook for 2015 anticipates annual non-interest expense growth in the low-single digit rate, reflecting higher staffing costs, which will be largely offset by the impact of cost savings initiatives and lower outside services expense.

- Compliance, Risk Management and Information Technology Infrastructures - In recent years, a combination of financial reform legislation and heightened scrutiny by banking regulators have significantly increased expectations regarding what constitutes an effective risk and compliance management infrastructure. To keep pace with these expectations, the Corporation has invested considerable resources in initiatives designed to strengthen its risk management framework and regulatory compliance programs, including those designed to comply with the requirements of the Bank Secrecy Act, the USA Patriot Act of 2001 and related anti-money laundering regulations (collectively, the BSA/AML Requirements).

Nonetheless, during 2014, the Corporation and five of its banking subsidiaries became subject to regulatory enforcement orders issued by banking regulatory agencies relating to identified deficiencies in a largely centralized compliance program (the BSA/AML Compliance Program) designed to comply with the BSA/AML Requirements (the 2014 Regulatory Orders). The 2014 Regulatory Orders are described in Current Reports on Form 8-K filed with the Securities and Exchange Commission on July 18, 2014, September 9, 2014, and December 29, 2014.

On February 25, 2015, Fulton Bank of New Jersey (FBNJ), the Corporation’s sixth banking subsidiary, entered into a Stipulation and Consent to the Issuance of a Consent Order with the Federal Deposit Insurance Corporation (the FDIC) consenting to the issuance by the FDIC of a Consent Order (the 2015 FDIC Consent Order). In addition, on February 25, 2015, FBNJ entered into a Consent Order with the Commissioner of Banking and Insurance for the State of New Jersey (the New Jersey Consent Order and, together with the FDIC Consent Order, the 2015 Consent Orders). See Part II, Item 9B "Other Information" for additional information regarding the 2015 Consent Orders.

The 2014 Regulatory Orders and the 2015 Consent Orders (collectively, 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. During the year ended December 31, 2014 the Corporation incurred approximately $8 million of outside services expense related to strengthening and enhancing the BSA/AML Compliance Program. Additional expenses and investments have been incurred as the Corporation further 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.

- Capital Management - During 2014, the Corporation repurchased 8.0 million shares of its common stock for a total cost of $95.3 million. In addition, in November 2014 the Corporation issued $100.0 million in subordinated debt and contemporaneously entered into an accelerated share repurchase agreement (ASR) with a third party to repurchase $100.0 million of its common stock. Final settlement of the ASR is scheduled for no later than April 17, 2015, and may occur earlier at the option of the third party. For more details on the ASR see Note N, "Shareholders' Equity," in the Notes to Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES

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

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

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

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

- Identification of potential problem loans in a timely manner. For commercial loans, commercial mortgages and construction loans to commercial borrowers, an internal risk rating process is used. The Corporation believes that internal risk ratings are the most relevant credit quality indicator for these types of loans. The migration of loans through the various internal risk rating categories is a significant component of the allowance for credit loss methodology for these loans, which bases the probability of default on this migration. Assigning risk ratings involves judgment. 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 an independent assessment of risk rating accuracy. Ratings may be changed based on the ongoing monitoring procedures performed by loan officers or credit administration staff, or if specific loan review assessments identify a deterioration or an improvement in the loan.

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

- Proper collateral valuation of impaired loans evaluated for impairment under FASB ASC Section 310-10-35. Substantially all of the Corporation’s impaired loans to borrowers with total outstanding loan balances greater than or equal to $1.0 million are measured based on the estimated fair value of each loan’s collateral. Collateral could be in the form of real estate, in the case of impaired commercial mortgages and construction loans, or business assets, such as accounts receivable or inventory, in the case of commercial loans. Commercial loans may also be secured by real property.

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

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

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

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

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

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

For additional details related to the allowance for credit losses, see Note D, "Loans and Allowance for Credit Losses," in the Notes to Consolidated Financial Statements.

Goodwill - Goodwill recorded in connection with acquisitions is not amortized to expense, but is tested at least annually for impairment. A quantitative annual impairment test is not required if, based on a qualitative analysis, the Corporation determines that the existence of events and circumstances indicate that it is more likely than not that goodwill is not impaired. The Corporation completes its annual goodwill impairment test as of October 31st of each year. The Corporation tests for impairment by first allocating its goodwill and other assets and liabilities, as necessary, to defined reporting units. A fair value is then determined for each reporting unit. If the fair values of the reporting units exceed their book values, no write-down of the recorded goodwill is necessary. If the fair values are less than the book values, an additional valuation procedure is necessary to assess the proper carrying value of the goodwill.

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

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

For additional details related to the annual goodwill impairment test, see Note F, "Goodwill and Intangible Assets," in the Notes to Consolidated Financial Statements.

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

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

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

See also Note L, "Income Taxes," in the Notes to Consolidated Financial Statements.

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

- Level 1 – Inputs that represent quoted prices for identical instruments in active markets.
- Level 2 – Inputs that represent quoted prices for similar instruments in active markets, or quoted prices for identical instruments in non-active markets. Also includes valuation techniques whose inputs are derived principally from observable market data other than quoted prices, such as interest rates or other market-corroborated means.
- Level 3 – Inputs that are largely unobservable, as little or no market data exists for the instrument being valued.

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

The determination of fair value for assets categorized as Level 3 items involves a great deal of subjectivity due to the use of unobservable inputs. In addition, determining when a market is no longer active and placing little or no reliance on distressed market prices requires the use of management’s judgment. The Corporation's Level 3 assets include available for sale debt securities in the form of pooled trust preferred securities, certain single-issuer trust preferred securities issued by financial institutions and auction rate securities. The Corporation also categorizes impaired loans, net of allowance allocations, other real estate owned (OREO) and mortgage servicing rights as Level 3 assets measured at fair value on a non-recurring basis.

The Corporation engages third-party valuation experts to assist in valuing interest rate swap derivatives and most available-for-sale investment securities, both measured at fair value on a recurring basis, and mortgage servicing rights, which are measured at fair value on a non-recurring basis. The pricing data and market quotes the Corporation obtains from outside sources are reviewed internally for reasonableness.

See Note R, "Fair Value Measurements," in the Notes to Consolidated Financial Statements for the disclosures required by FASB ASC Topic 820.

New Accounting Standards

For a description of new accounting standards issued, but not yet adopted by the Corporation, see Note A, "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements, under the subheading "New Accounting Standards."

RESULTS OF OPERATIONS

Net Interest Income

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

The following table provides a comparative average balance sheet and net interest income analysis for 2014 compared to 2013 and 2012. Interest income and yields are presented on an FTE basis, using a 35% federal tax rate and statutory interest expense disallowances. The discussion following this table is based on these tax-equivalent amounts.

	2014			2013			2012		
	Average Balance	Interest (1)	Yield/ Rate	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)	$12,885,180	$542,540	4.21%	$12,578,524	$552,427	4.39%	$11,968,567	$575,534	4.81%
Taxable investment securities (3)	2,189,510	50,651	2.31	2,391,650	54,321	2.27	2,401,343	67,349	2.80
Tax-exempt investment securities (3)	261,825	13,810	5.27	285,174	14,577	5.11	287,763	15,942	5.54
Equity securities (3)	33,957	1,728	5.09	38,722	1,829	4.72	35,151	1,639	4.66
Total investment securities	2,485,292	66,189	2.66	2,715,546	70,727	2.60	2,724,257	84,930	3.12
Loans held for sale	17,524	786	4.49	36,561	1,551	4.24	54,351	2,064	3.80
Other interest-earning assets	314,345	4,018	1.28	229,444	2,264	0.99	207,415	1,830	0.88
Total interest-earning assets	15,702,341	613,533	3.91	15,560,075	626,969	4.03	14,954,590	664,358	4.45
Noninterest-earning assets:									
Cash and due from banks	177,664			207,931			234,494		
Premises and equipment	224,903			226,041			219,236		
Other assets (3)	1,049,765			1,037,338			1,099,616		
Less: Allowance for loan losses	(195,166)			(220,048)			(250,160)		
Total Assets	$16,959,507			$16,811,337			$16,257,776		
LIABILITIES AND EQUITY									
Interest-bearing liabilities:									

Demand deposits	$3,013,879	$3,793	0.13%	$2,822,583	$3,656	0.13%	$2,560,831	$4,187	0.16%
Savings deposits	3,431,957	4,298	0.13	3,363,943	4,096	0.12	3,356,070	6,002	0.18
Time deposits	2,992,920	27,019	0.90	3,129,162	29,018	0.93	3,717,556	46,706	1.26
Total interest-bearing deposits	9,438,756	35,110	0.37	9,315,688	36,770	0.39	9,634,457	56,895	0.59
Short-term borrowings	832,839	1,608	0.19	1,196,323	2,420	0.20	690,883	1,068	0.15
Long-term debt	965,601	44,493	4.61	889,461	43,305	4.87	933,727	45,205	4.84
Total interest-bearing liabilities	11,237,196	81,211	0.72	11,401,472	82,495	0.72	11,259,067	103,168	0.92
Noninterest-bearing liabilities:									
Demand deposits	3,428,907			3,157,496			2,758,123		
Other	221,764			198,548			189,592		
Total Liabilities	14,887,867			14,757,516			14,206,782		
Shareholders’ equity	2,071,640			2,053,821			2,050,994		
Total Liabilities and Shareholders' Equity	$16,959,507			$16,811,337			$16,257,776		
Net interest income/net interest margin (FTE)		532,322	3.39%						