UNIVERSAL INSURANCE HOLDINGS, INC.
Form DEF 14A
April 27, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement
Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
Definitive Proxy Statement
Definitive Additional Materials
Soliciting Material Pursuant to §240.14a-12

UNIVERSAL INSURANCE HOLDINGS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.
Fee computed on table below per Exchange Act Rules 14a-6(i) (1) and 0-11.
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(3) Filing Party:
(4) Date Filed:

Table of Contents

1110 West Commercial Boulevard, Fort Lauderdale, Florida 33309

(954) 958-1200

April 27, 2018

Dear Shareholder:

You are cordially invited to attend the 2018 Annual Meeting of Shareholders of Universal Insurance Holdings, Inc. We will hold the meeting at 9:00 a.m., Eastern Time, on June 13, 2018 at the Biltmore, 1 Lodge Street, Asheville, North Carolina 28803.

Enclosed you will find a notice setting forth the business expected to come before the meeting, the Proxy Statement, a proxy card and a copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. Your vote is very important to us. We encourage you to vote, regardless of the number of shares you own. Whether or not you plan to attend the meeting in person, please submit your proxy by mail, internet or telephone to ensure that your shares are represented and voted at the meeting. The methods available to vote your shares are described in the Proxy Statement and on your proxy card.

Our 2017 financial results were very strong, highlighted by continued organic growth from both our home state of Florida and our expansion efforts into other states, solid underwriting profitability and meaningful growth in both net income and book value per share. We achieved these excellent results despite the occurrence of Hurricane Irma, which made landfall in Florida on September 10, 2017 as a Category 4 storm on the Saffir-Simpson Hurricane Scale, and caused a wide swath of damage across the entire Florida Peninsula and throughout the Southeastern United States. We demonstrated the true value of our business model in the wake of Hurricane Irma s landfall, and we are proud of how well the entire Universal team responded to this devastating event. Our comprehensive reinsurance program performed as expected, limiting net losses incurred from one of Florida s largest hurricanes in over a decade, while our vertically integrated structure produced various income streams in the months following the storm, and our superior claims handling and catastrophe response teams delivered excellent service to our policyholders, closing claims in a timely and orderly manner. We believe that Universal emerged from this event as a stronger company, and we remain well-positioned to deliver outstanding value to shareholders throughout 2018 and beyond.

I would like to thank you for your continued confidence in our company.

Sincerely,

Sean P. Downes
Chairman and Chief Executive Officer

Table of Contents

UNIVERSAL INSURANCE HOLDINGS, INC.

1110 West Commercial Boulevard

Fort Lauderdale, Florida 33309

(954) 958-1200

www.universalinsuranceholdings.com

NOTICE OF 2018 ANNUAL MEETING OF SHAREHOLDERS

Date and Time Wednesday, June 13, 2018
9:00 a.m., Eastern Time

Place Biltmore

1 Lodge Street

Asheville, North Carolina 28803

Record Date

Only shareholders of record at the close of business on April 16, 2018 are entitled to receive notice of, and to vote at, the meeting.

Items of Business

Election of ten director nominees named in the Proxy Statement to our Board of Directors for a one-year term

Advisory vote to approve the compensation paid to our Named Executive Officers

Ratification of the appointment of Plante & Moran, PLLC as our independent registered public accounting firm for the 2018 fiscal year

Transaction of such other business as may properly come before the meeting or any adjournment thereof

Proxy Voting

Please vote promptly. You can vote your shares via the internet, by telephone or by signing, dating and returning the enclosed proxy card in the enclosed postage-paid envelope. Submitting your proxy now will not prevent you from voting your shares at the meeting, as your proxy is revocable at your option.

BY ORDER OF THE BOARD OF DIRECTORS

Stephen J. Donaghy,

Secretary

Fort Lauderdale, Florida

April 27, 2018

TABLE OF CONTENTS

PROXY STATEMENT 1

PROXY SUMMARY 1

CORPORATE GOVERNANCE 5

Board Membership Criteria and Nominations 5
Director Nominees 5
ITEM 1: ELECTION OF DIRECTORS 7
Corporate Governance Framework 7
Committees and Committee Chairs 10
Compensation Committee Interlocks and Insider Participation 12
Director Compensation 12
Section 16(a) Beneficial Ownership Reporting Compliance 12
Executive Officers 13

EXECUTIVE COMPENSATION 14

Compensation Discussion and Analysis 14
2017 Summary Compensation Table 19
2017 All Other Compensation Table 19
2017 Grants of Plan-Based Awards 20
2017 Outstanding Equity Awards at Year-End 21
Options Exercised and Stock Vested 21
Employment Agreements and Potential Payments Upon Termination or Change in Control 22
2017 Potential Payments Upon Termination or Change in Control Table(1) 23
Compensation Committee Report 25
Equity Compensation Plan Information 25
CEO Pay Ratio 25
ITEM 2: ADVISORY VOTE TO APPROVE THE COMPENSATION PAID TO THE COMPANY S NAMED EXECUTIVE OFFICERS 25

AUDIT MATTERS 26

Independent Auditor 26
Policy on Audit Committee Preapproval of Audit and Permissible Non-Audit Services 26
Accounting Fees and Services 26
ITEM 3: RATIFICATION OF SELECTION OF PLANTE & MORAN PLLC AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM OF THE COMPANY FOR 2018 26
Audit Committee Report 27

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS 28

BENEFICIAL OWNERSHIP 29

Ownership of Series A Preferred Stock 29
Ownership of Common Stock 30

INFORMATION CONCERNING OUR ANNUAL MEETING, VOTING AND SHAREHOLDER PROPOSALS FOR THE 2018 ANNUAL MEETING 31

OTHER MATTERS 34

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors (Board) of Universal Insurance Holdings, Inc., a Delaware corporation (Company , Universal or UVE), of proxies to be voted at the 2018 Annual Meeting of Shareholders, to be held at the Biltmore, 1 Lodge Street, Asheville, North Carolina 28803, on Wednesday, June 13, 2018, at 9:00 a.m., Eastern Time, and at any and all postponements or adjournments thereof, for the items of business set forth in the accompanying Notice of 2018 Annual Meeting of Shareholders. This Proxy Statement, Notice of 2018 Annual Meeting of Shareholders, accompanying proxy card and our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 are available at http://www.proxyvote.com.

To reduce our costs and decrease the environmental impact of our proxy materials, in lieu of mailing our proxy materials, we will send a Notice of Internet Availability of Proxy Materials (the Notice) to certain of our shareholders containing instructions on how to access our proxy materials online. If you receive a Notice, you will not receive a printed copy of the proxy materials in the mail. Instead, the Notice instructs you on how to access and review the proxy materials online and on how to submit your proxy online. If you received a Notice and would like to receive a copy of our proxy materials, follow the instructions contained in the Notice to request a copy electronically or in paper form. The Notice and printed copies of our proxy materials, as applicable, are expected to be mailed to shareholders on or about April 27, 2018.

PROXY SUMMARY

Meeting Agenda and Board Vote Recommendations

Item Number	Meeting Agenda Item	Board Vote Recommendation	Page Reference
1	Election of ten directors named in this Proxy Statement for an annual term ending in 2019	FOR EACH NOMINEE	5 7
2	Advisory vote to approve the compensation paid to the Company s Named Executive Officers	FOR	14 25
3	Ratification of the appointment of Plante & Moran, PLLC as the independent registered public accounting firm of the Company for the fiscal year ending December 31, 2018	FOR	26

Company Overview and Business Strategy

Universal is a Fort Lauderdale, Florida-based insurance holding company that operates through a vertically integrated structure and performs all aspects of insurance underwriting, distribution and claims. Universal has two insurance company subsidiaries:

Universal Property & Casualty Insurance Company (UPCIC) is one of the leading writers of homeowners insurance in Florida and is fully licensed and has commenced operations in 17 states (Alabama, Delaware, Florida, Georgia, Hawaii, Indiana, Maryland, Massachusetts, Michigan, Minnesota, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, South Carolina and Virginia). UPCIC has also received a Certificate of Authority in Illinois, Iowa and West Virginia.

American Platinum Property and Casualty Insurance Company (APPCIC) currently writes homeowners multi-peril insurance on Florida homes valued in excess of $1 million and is licensed to write Fire, Commercial Multi-Peril, and Other Liability (collectively, Commercial Residential) lines of business in Florida.

The key tenets of our business strategy include:

Pursue Profitable Growth with a Focus on Organic Development We continue to pursue profitable growth both within Florida and through expansion into other states, while continuing to expand Universal Direct^{SM} and adding new products when prudent (such as the Commercial Residential line of business that we introduced in Florida in late 2016).

Optimize our Reinsurance Program as our Risk Profile Changes We expect to continue to obtain what we believe to be appropriate reinsurance limits, coverage and terms so that our policyholders and shareholders are adequately protected in the event of an active hurricane season.

Continue to Build and Enhance Our Claims Operations We plan to continue to enhance our superior claims division, highlighted by our proprietary claims administration system, which we developed over the last decade and allows us to efficiently process nearly all aspects of claims resolution for our policyholders, as well as by our Fast Track initiative, which expedites the claims settlement process to close certain types of claims in as little as 24 hours.

Maintain an Emphasis on Underwriting Discipline We seek to generate a consistent underwriting profit on the business we write in hard and soft markets through carefully developed underwriting guidelines informed by our experience in evaluating risks and in handling and processing claims.

Provide High Quality Service to our Policyholders We strive to provide excellent customer service to each of our policyholders throughout every aspect of our business. We believe our vertically integrated business model provides a superior level of customer service for our policyholders, enhancing our reputation and increasing the likelihood that our policyholders will renew their policies with us.

Performance Highlights

Key financial achievements for 2017 include:

Direct premiums written overall grew by $101.3 million, or 10.6%, to $1,055.9 million compared to 2016. In Florida, direct premiums written grew by $63.3 million, or 7.4%, to $924.0 million. Outside of Florida, direct premiums written grew by $38.0 million, or 40.4%, to $131.9 million.

Net premiums earned grew by $56.4 million, or 8.9%, to $688.8 million compared to 2016.

Total revenues increased by $66.6 million, or 9.7%, to $751.9 million compared to 2016.

Net income increased by $7.5 million, or 7.6%, to $106.9 million compared to 2016.

Diluted earnings per share increased by $0.20, or 7.1%, to $2.99 per common share compared to 2016.

Declared and paid dividends per common share of $0.69, including a $0.13 special dividend in December.

Repurchased approximately 771,000 shares in 2017 at an aggregate cost of $18.1 million.

Generated a Return on Average Equity of 25.7% for 2017.

Although Hurricane Irma caused substantial losses, our vertically integrated structure and comprehensive reinsurance program substantially limited the overall financial impact from this damaging storm.

For further details about our 2017 performance, please see our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Key operational achievements and milestones for 2017 include:

Our Florida business continued to grow in 2017. We received regulatory approval for an overall 3.4% average statewide rate increase in Florida during 2017, which we began using on December 7, 2017 for new business and on January 26, 2018 for renewal business.

We also continued to make progress on our geographic expansion initiative, as we commenced writing homeowners policies in New Jersey and New York, and we received Certificates of Authority from Illinois and Iowa.

We offered Universal Direct^{SM} in all 16 states in which we wrote policies as of December 31, 2017.

Our comprehensive reinsurance program performed as designed and as expected during Hurricane Irma, limiting our exposure to the largest hurricane to make landfall in Florida in the past decade, and enabling us to report an underwriting profit during both the third quarter of 2017 and the full year 2017.

We experienced a meaningful increase in headcount during the year (from 483 full-time employees as of February 14, 2017 to 558 full-time employees at February 9, 2018), with the majority of those increases coming within our claims department. In particular, we added significant headcount in connection with our build-out of the subrogation and litigation teams within our claims department.

The following charts demonstrate the achievements of our executive team since Sean P. Downes, Chairman and Chief Executive Officer, and Jon W. Springer, President, Chief Risk Officer, and Director assumed leadership in February 2013.

Table of Contents

PROXY SUMMARY CONTINUED

Director Nominees

We strive to maintain a committed, engaged Board with the diverse, independent skill set demanded by its oversight role.

Name	Age	Director Since	Principal Occupation	Committee Membership				
				Nominating & Governance	Compensation	Audit	Investment	Risk
Sean P. Downes (Chairman and CEO)	48	2005	Chairman and Chief Executive Officer, Universal Insurance Holdings, Inc.				X	
Scott P. Callahan	64	2013	President and Managing Member of SPC Global RE Advisors, LLC; Former EVP of Everest Reinsurance Holdings	X			X	
Kimberly D. Cooper	40	2017	Chief Information Officer and Chief Administration Officer, Universal Insurance Holdings, Inc.					X
Darryl L. Lewis	53	2013	Trial Attorney with Searcy Denney Scarola Barnhart & Shipley, P.A.	Chair		X		Chair
Ralph J. Palmieri	70	2014	Retired Insurance Company Executive from The Hartford Insurance Group				Chair	
Richard D. Peterson	50	2014	CFO of Dermavant Sciences, Inc.; Former CFO of Sienna Biopharmaceuticals, Inc.		X	Chair		
Michael A. Pietrangelo (Lead Independent Director)	75	2010	Lawyer with Pietrangelo Cook, PLC	X	Chair			
Ozzie A. Schindler	49	2007	Lawyer with Greenberg Traurig LLP			X		
Jon W. Springer	48	2013	President and Chief Risk Officer, Universal Insurance Holdings, Inc.				X	X
Joel M. Wilentz, M.D.	83	1997	Founding Member of Dermatology Associates and the Centers for Cosmetic Enhancement in Florida	X	X			

Denotes Board members added since our current management team assumed leadership in 2013.

Governance Highlights

Seven of our ten director nominees are independent.

We added six new directors to the Board since 2013.

Our independent directors elect our lead independent director, who chairs regularly-scheduled executive sessions at which our independent directors discuss matters without management present, including management s performance, succession planning and Board effectiveness.

We have five Board committees: Audit Committee, Compensation Committee, Nominating and Governance Committee, Investment Committee and Risk Committee, with Audit Committee, Compensation Committee and Nominating and Governance Committee comprised exclusively of independent directors. Our directors are elected annually.

We have outreach and engagement with our largest shareholders and have established a telephone hotline to allow shareholders to communicate any concerns to our independent directors on an anonymous basis.

The Board routinely focuses on continuing director education for all directors and Board orientation for new directors.

The Board and each committee conduct an annual evaluation of its performance.

Senior management succession planning is a top Board priority. The Board devotes significant attention to identifying and developing talented senior leaders.

CORPORATE GOVERNANCE

The Board is responsible for overseeing management and providing sound governance on behalf of our shareholders. The Board selects our executive officers, delegates responsibilities for the conduct of day-to-day operations to such officers and monitors the performance of our officers.

Board Membership Criteria and Nominations

In selecting candidates for director, the Nominating and Governance Committee of the Board looks for individuals with strong personal attributes including:

Integrity: Directors should demonstrate high ethical standards and integrity in their personal and professional dealings.

Accountability: Directors should be willing to be accountable for their decisions as directors.

Judgment: Directors should possess the ability to provide wise and thoughtful counsel on a broad range of issues.

Responsibility: Directors should interact with each other in a manner that encourages responsible, open, challenging and inspired discussion.

High Performance Standards: Directors should have a history of achievements that reflects high standards for themselves and others.
Commitment and Enthusiasm: Directors should be committed to, and enthusiastic about, their service on the Board.

Courage: Directors should possess the courage to express views openly, even in the face of opposition.
The Board maintains no formal policy regarding Board membership diversity. In nominating directors, the Board considers, among other things, functional areas of experience, educational background, employment experience and leadership performance.

The Board generally believes that the Nominating and Governance Committee and the Board are best situated to identify candidates with appropriate industry and related expertise to meet the Company s needs; however, we will carefully consider any director nominees recommended by shareholders. If a shareholder desires to formally propose a director nominee at the annual meeting, or to put a proposal on the agenda for the annual meeting, our bylaws establish an advance notice procedure that must be complied with in order to do so.

Director Nominees

The current directors of the Company are set forth below, each of whom is also a director nominee. If elected, each nominee is expected to serve until the 2019 Annual Meeting of Shareholders or until his or her successor is duly elected and qualified.

Name	Age	Position	Date of Joining the Board
Scott P. Callahan	64	Director	2013
Kimberly D. Cooper	40	Director, Chief Information Officer and Chief Administrative Officer	2017
Sean P. Downes	48	Chairman and Chief Executive Officer	2005
Darryl L. Lewis	53	Director	2013
Ralph J. Palmieri	70	Director	2014
Richard D. Peterson	50	Director	2014
Michael A. Pietrangelo	75	Director	2010
Ozzie A. Schindler	49	Director	2007
Jon W. Springer	48	Director, President and Chief Risk Officer	2013
Joel M. Wilentz, M.D.	83	Director	1997

Scott P. Callahan became a director of the Company in 2013. Mr. Callahan has more than thirty years experience in the property and casualty reinsurance industry. Mr. Callahan currently serves as President and Managing Member of SPC Global RE Advisors LLC, a consulting firm specializing in reinsurance matters, a position he has held since 2013. Until 2011, Mr. Callahan served as Executive Vice President of Everest Reinsurance Holdings, Inc. and Everest

Reinsurance Company since 2002. Mr. Callahan also served as a director of Everest Reinsurance Company from 2001 to 2011, a director of Everest International Reinsurance, Ltd. from 2003 to 2007, and director of Everest Reinsurance (Bermuda), Ltd. from 2001 to 2007. His broad knowledge of the reinsurance industry allows Mr. Callahan to provide valuable perspective to the Board, particularly on matters related to the Company s reinsurance program.

Table of Contents

CORPORATE GOVERNANCE CONTINUED

Kimberly D. Cooper became a director of the Company in 2017. Ms. Cooper joined the Company in 2007 and became Chief Administrative Officer in June 2015 and Chief Information Officer in February 2015. Prior to assuming these roles, Ms. Cooper spent eight years in the Company s internal audit department, serving as both IT Manager and then IT Audit Director. She managed IT general controls reviews and new application deployment and performed ongoing security and risk awareness training to improve operational efficiencies and ensure ongoing compliance with regulatory requirements. Ms. Cooper brings to the Board significant experience in information technology, risk management, regulatory compliance and operational efficiency practices.

Sean P. Downes became Chairman and Chief Executive Officer of the Company in 2013. Mr. Downes also served as President of the Company from 2013 to March 10, 2016. Prior to becoming President and Chief Executive Officer, Mr. Downes served as Senior Vice President and Chief Operating Officer of the Company since 2005 and Chief Operating Officer of UPCIC, a wholly-owned subsidiary of the Company, since 2003. Mr. Downes has served as a director of the Company since 2005 and as a director of UPCIC since 2003. Prior to joining UPCIC, Mr. Downes was Chief Operating Officer of Universal Adjusting Corporation, a wholly-owned subsidiary of the Company, from 1999 to 2003. As an experienced financial and operational leader within the insurance industry, Mr. Downes brings to the Board a broad understanding of the strategic priorities and operational demands facing the Company.

Darryl L. Lewis became a director of the Company in 2013. Mr. Lewis is an established trial attorney in Florida and throughout the southeast region of the United States. Mr. Lewis has been a shareholder with the law firm of Searcy Denney Scarola Barnhart & Shipley, P.A. since 2003. Mr. Lewis has been named in the *Best Lawyers in America* publication in connection with his litigation practice since 2007 and in the *South Florida Legal Guide* as one of Florida s top trial lawyers. Mr. Lewis s extensive knowledge of the Florida business and legal markets makes him a valuable member of the Board.

Ralph J. Palmieri became a director of the Company in 2014. Mr. Palmieri has more than 40 years of experience in the insurance and reinsurance industries. Mr. Palmieri served in various capacities with The Hartford Insurance Group and its subsidiaries from 1976 until his retirement in 2007, including Senior Vice President, Specialty Lines, for The Hartford and President and Chief Operating Officer of The Hartford s surplus lines subsidiary, First State Management Group (formerly known as Cameron and Colby Co.), from 1988 to 2007. Mr. Palmieri brings an acute understanding of the insurance and reinsurance industries and executive leadership experience to the Board.

Richard D. Peterson became a director of the Company in 2014. Mr. Peterson has over 20 years of experience in the areas of executive management, finance and accounting. Mr. Peterson is currently the Chief Financial Officer of Dermavant Sciences, Inc., a position he has held since 2018. From 2017 to 2018, Mr. Peterson was the Chief Financial Officer of Sienna Biopharmaceuticals, Inc., a public pharmaceutical company. Mr. Peterson also served as Chief Financial Officer of Novan, Inc., a public pharmaceutical company,

from 2015 to 2017. Mr. Peterson served in various executive roles at Medicis Pharmaceutical Corporation from 1995 to 2012, including as Executive Vice President, Chief Financial Officer and Treasurer from 2008 to 2012. Mr. Peterson has an understanding of corporate governance matters and experience with financial reporting and executive leadership that make him a valued member of our Board.

Michael A. Pietrangelo became a director of the Company in 2010. Since 1998, Mr. Pietrangelo has practiced law and has been of counsel to the firm of Pietrangelo Cook, PLC. Mr. Pietrangelo is admitted to the bars of the states of New York and Tennessee and the District of Columbia. He served on the board of directors of MRI Interventions Inc., a publicly traded research and development company, from 2010 to 2014, and he currently serves on the board of directors of the American Parkinson Disease Association, a not-for-profit organization focused on serving the Parkinson s community. Mr. Pietrangelo also serves as the managing partner of The Theraplex Company, LLC, a privately held skin care company. He brings valuable experience to the Board in corporate governance, legal and financial matters as a result of his positions as a lawyer, executive and director of privately held and public companies, as well as nonprofit organizations.

Ozzie A. Schindler became a director of the Company in 2007. Mr. Schindler has been a shareholder with the law firm of Greenberg Traurig LLP since 2005, specializing in all aspects of international tax planning. He is admitted to both the Florida and New York bars. Mr. Schindler provides strong regulatory, accounting, financial, risk analysis, internal audit, compliance, corporate governance and administrative skills and experience to the Board.

Jon W. Springer became a director of the Company in 2013. Mr. Springer became President and Chief Risk Officer of the Company as of March 10, 2016. Prior to taking on such role, he served as an Executive Vice President and Chief Operating Officer of the Company since 2013. Mr. Springer was an Executive Vice President of Universal Risk Advisors, Inc., a wholly-owned subsidiary of the Company, from 2006 through 2008, and an Executive Vice President of Blue Atlantic Reinsurance Corporation (Blue Atlantic), a wholly-owned subsidiary of the Company, from 2008 to 2013. Before joining Universal Risk Advisors, Inc. in 2006, Mr. Springer was an Executive Vice President of Willis Re, Inc. and was responsible for managing property and casualty operations in its Minneapolis office. Mr. Springer brings to the Board extensive experience in the property and casualty insurance industry, including with respect to reinsurance arrangements.

Joel M. Wilentz, M.D. became a director of the Company in 1997. Dr. Wilentz is one of the founding members of Dermatology Associates, founded in 1970, and of the Centers for Cosmetic Enhancement in Florida. He is a former member of the Board of Directors of the Neurological Injury Compensation Association for the State of Florida. Dr. Wilentz is, at present, a member of the Board of Governors of Nova Southeastern University. Dr. Wilentz s general business acumen and deep understanding of the Florida business, professional and regulatory environment allow him to provide independent guidance to the Board on a wide variety of general corporate and strategic matters.

ITEM 1: ELECTION OF DIRECTORS

The Board, upon the recommendation of the Nominating and Governance Committee, has nominated incumbent directors Scott P. Callahan, Kimberly D. Cooper, Sean P. Downes, Darryl L. Lewis, Ralph J. Palmieri, Richard D. Peterson, Michael A. Pietrangelo, Ozzie A. Schindler, Jon W. Springer and Joel M. Wilentz, M.D. for election to the Board to serve as directors until the 2019 Annual Meeting of Shareholders or until each nominee s successor is duly elected and qualified or until such director s earlier death, resignation or removal. The Board has fixed the number of director seats on the Board at ten.

The nominees have consented to be named in this Proxy Statement as director nominees and have indicated their intent to serve if elected. If any nominee becomes unavailable for any reason, or if any vacancy in the slate of directors to be elected at the meeting should occur before the election, the shares represented by the proxy will be

voted for the person, if any, who is designated by the Board to replace the nominee or to fill such vacancy on the Board.

A director nominee must receive the affirmative vote of the majority of votes cast at the annual meeting in order to be elected. If elected, each nominee is expected to serve until the 2019 Annual Meeting of Shareholders or until his or her successor is duly elected and qualified. Otherwise, if a director nominee fails to receive the affirmative vote of the majority of votes cast, then he or she shall promptly tender his or her resignation to the Board, and the Board, taking into account the recommendation of the Nominating and Governance Committee, shall subsequently determine whether to accept or reject the resignation, or whether other action should be taken.

THE BOARD RECOMMENDS A VOTE ***FOR*** EACH OF ITS NOMINEES FOR ELECTION AS DIRECTORS.

Corporate Governance Framework

The Board s leadership structure is designed to ensure that authority and responsibility are effectively allocated between the Board and management. In addition to our strong corporate governance practices and the key oversight roles of our lead independent director and committee chairs, each as described below, all directors share equally in their responsibilities as members of the Board and take seriously the charge of leading the Company on behalf of our shareholders. Our corporate governance framework reflects our commitment to independence and corporate responsibility and to promote achievement of our financial goals through responsible development and execution of corporate strategy. Our governance framework enables independent and skilled directors to provide

oversight, advice and counsel to promote the interests of the Company and our shareholders. Our governance framework is established and evidenced by our Corporate Governance Guidelines (Governance Guidelines), Code of Business Conduct and Ethics (Code of Conduct), our risk management program and our commitment to transparent financial reporting. Our Governance Guidelines, Code of Conduct and the charters of each Board committee are available at www.universalinsuranceholdings.com. The Board, along with management, regularly reviews our policies and procedures, charters and practices to ensure that they are appropriate and reflect desired standards of corporate governance.

Governance Highlights

The following chart highlights our corporate governance practices and principles.

Board Independence	Seven of our ten director nominees are independent. Messrs. Downes and Springer and Ms. Cooper are the members of management who serve as directors.
Board Composition	The Nominating and Governance Committee regularly reviews Board performance, assesses gaps in skills or experience on the Board and periodically recommends new directors to add a fresh perspective to the Board while maintaining continuity and valuable historic knowledge. We have added six new directors to the Board since 2013.
Lead Independent Director	Our independent directors elect our lead independent director. Our lead independent director chairs regularly-scheduled executive sessions at which our independent directors discuss matters without management present, including management s performance, succession planning and Board effectiveness.
Board Committees	We have five Board committees: Audit Committee, Compensation Committee, Nominating and Governance Committee, Investment Committee and Risk Committee. Our Compensation Committee, Audit Committee and Nominating and Governance Committee are each comprised exclusively of independent directors. Chairs of the Board committees shape the agenda and information presented to their committees.
Board Oversight of Risk Management	The Board seeks to ensure that material risks are identified and managed appropriately, and the Board and its committees regularly review material operational, financial, compensation and compliance risks with senior management. Our Audit Committee oversees the integrity of our financial reporting process, financial statements and related legal and regulatory compliance. Our Compensation Committee considers risk in connection with its design of the compensation program for our executives. Our Nominating and Governance Committee assists in managing risk by regularly reviewing the Company s governance practices and the composition of the Board and its committees, including with regard to director independence. Our Investment Committee considers risks related to the investment of the Company s securities portfolio and the Company s investment strategy. Our Risk Committee assists in managing risk by developing and overseeing risk management process and systems of internal controls intended to provide assurance that the Company has identified and evaluated key enterprise risks and implemented mitigating controls. The Board and management also focus on privacy protection, cybersecurity and information security in an effort to mitigate the risk of cyber-attacks and to protect the Company s information and that of our customers.
Accountability	Our directors are elected annually. We have outreach and engagement with our largest shareholders and have established a mechanism to allow shareholders to communicate anonymously any concerns to our independent directors.
Open Communications	Our committees report to the Board regularly. The Board promotes open and frank discussions with management. Our directors have free access to members of management and other employees and are authorized to hire outside consultants or experts at the Company s expense.
Director Education	The Board routinely focuses on continuing director education for all directors and Board orientation for new directors.
Self-Evaluations	The Board and each committee conduct annual evaluations of their performance.
Succession Planning	Senior management succession planning is a top Board priority. The Board devotes significant attention to identifying and developing talented senior leaders.
Director Stock Ownership	Within two years of joining the Board, each director is expected to hold shares of our common stock having a value of at least $25,000.
Clawback Policy; No Hedging or Pledging	We have a compensation clawback policy designed to mitigate risk in connection with executive compensation. Our directors, executive officers and senior accounting and finance personnel may not hedge or short shares of our common stock, engage in options trading, trade on margin or pledge shares of our common stock as collateral.

Board and Committee Meetings

Meetings of the Board are held regularly each quarter and as may otherwise be required. The Board held four meetings during 2017. We encourage directors to attend the annual meeting of shareholders and expect that they will attend. All of our directors were present at the 2017 Annual Meeting of Shareholders. Other than Mr. Callahan, all of our directors attended at least 75% of the meetings of the Board and the committees on which they served during 2017. Mr. Callahan attended 73% of the Board and Board committee meetings on which he serves during 2017. The meetings he missed were all held on the same day; he could not attend these meetings due to illness in his family.

Board Leadership Structure

The Board believes that it is important to retain flexibility in determining the best leadership structure for the Company as our needs may change over time. The roles of Board Chairman and Chief Executive Officer may be filled by the same or different individuals, which provides the Board the flexibility to determine whether these roles should be combined or separated based on the Company s circumstances and needs at any given time. The roles of Chairman and Chief Executive Officer of the Company are currently held by the same person, Sean P. Downes. The Board believes that our shareholders are best served at this time by having Mr. Downes fill both positions. Mr. Downes s tenure and experience with the Company make him the most familiar with the business and challenges the Company faces in the current business environment. His experience and expertise make him the most appropriate person to set agendas for, and lead discussions of, strategic matters affecting our business at this time. Moreover, this structure enables Mr. Downes to act as a bridge between management and the Board and helps to promote unified leadership and direction. The Board believes this structure, together with a strong lead independent director, currently provides appropriate leadership for the Company and facilitates effective communications between the Board and management. Our Chairman is appointed annually by all the directors. The Chairman s responsibilities, in addition to providing general leadership to the Board, include calling and presiding at Board and shareholder meetings and preparing meeting schedules, agendas and materials.

Independence of Our Directors

NYSE rules require that at least a majority of our directors be independent of the Company and management. The Board has determined that each of our directors, other than Messrs. Downes and Springer and Ms. Cooper, is an independent director, as such term is defined by NYSE rules. In making such independence determination with regard to Mr. Ralph Palmieri, the Board considered that Mr. Palmieri s son, Matthew J. Palmieri, is employed as President of Blue Atlantic, a wholly-owned subsidiary of the Company, and has been with the Company since June 2006. Matthew Palmieri is not an executive officer of the Company. See Certain Relationships and Related-Party Transactions for additional details regarding Matthew Palmieri s employment with Blue Atlantic.

Lead Independent Director; Meetings of Independent Directors

Our independent directors chose Michael A. Pietrangelo to serve as the lead independent director in 2014, and Mr. Pietrangelo continues to serve in this role. Our independent directors met four times in executive session in 2017. Our lead independent director presides over all executive sessions of our independent directors, facilitates communication between management and our independent directors and is available for consultation with major shareholders and other constituencies, as appropriate. Interested parties may anonymously communicate any concerns to our independent directors, including our lead independent director, by calling (877) 778-5463, which is the same number that employees may use to anonymously report complaints to the Audit Committee concerning accounting or auditing matters.

Board and Committee Annual Evaluations

At the direction of the Nominating and Governance Committee, the Board annually conducts a self-evaluation aimed at enhancing effectiveness. The annual assessment process is a key governance tool used by the Nominating and Governance Committee to solicit feedback in a number of areas, including overall effectiveness, communications with management and committee structures. Each committee also performs an annual self-evaluation, which includes an assessment of its effectiveness and a review of the committee charter and other relevant governance practices and procedures. The Nominating and Governance Committee periodically reviews and assesses the evaluation process as well.

The Board s Role in Risk Oversight

Risk is an inherent part of our business, and effective risk management is a top Board priority. Risk management and key risks identified by management are overseen by the Board and its committees. These include material operational, financial, compensation and compliance risks. The Board and management also focus on privacy protection, cybersecurity and information security in an effort to mitigate the risk of cyber-attacks and to protect the Company s information and that of our customers.

Our Board committees also help manage risk. The Audit Committee performs a central oversight role with respect to financial and compliance risks. As part of its responsibilities, the Audit Committee discusses with management the Company s policies and guidelines governing the process by which risk assessment and risk management are undertaken by management, including guidelines and policies to identify major financial risk exposures and the steps management has taken to

monitor and control such exposures. The Compensation Committee considers risk in connection with its design of compensation programs for our executives, including confirming that the compensation program does not encourage unnecessary risk taking, as more fully discussed in the Compensation Discussion and Analysis section of this Proxy Statement. The Nominating and Governance Committee assists in managing risk by annually reviewing the composition of the Board and its committees,

including with regard to director independence, by assessing the adequacy of our corporate governance policies and procedures and by making recommendations to the Board, as appropriate, regarding modifications to such policies and procedures. The Investment Committee considers risks related to the investment of the Company s securities portfolio and reviews the performance of the portfolio, compliance with applicable state investment codes and regulations and adherence to the Company s investment strategy. The Risk Committee is responsible for the development and oversight of risk management processes and systems of internal controls intended to provide assurances to management and the Board that the Company has identified and evaluated key enterprise risks and implemented mitigating controls.

Code of Business Conduct and Ethics

Our Code of Conduct is a critical component in helping us maintain high professional standards. We also provide an internal reporting hotline, through which employees can anonymously report suspected violations of the Code of Conduct or other policies. Suspected violations of the Code of Conduct are investigated by the Company and may result in disciplinary action. The Code of Conduct is publicly available on our website at www.universalinsuranceholdings.com. The Audit Committee annually reviews our Code of Conduct for changes, as appropriate. In the event of an amendment to the Code of Ethics, or a waiver from a provision of the Code of Ethics granted to a senior executive officer, the Company intends to post such information on its website.

Governance Guidelines

Our Governance Guidelines address director independence standards, conflicts of interest, meeting and committee procedures, Board membership criteria, director qualifications and duties and succession planning, among other pertinent governance matters. Our Governance Guidelines are publicly available on our website at www.universalinsuranceholdings.com. The Nominating and Governance Committee annually reviews the Governance Guidelines for changes, as appropriate.

Shareholder Communications

We have established a process for shareholders to send communications to the Board. Shareholders may anonymously communicate any concerns regarding the Company to our independent directors by calling (877) 778-5463, which is the same number that employees may use to anonymously report complaints to the Audit Committee concerning accounting or auditing matters. Upon receipt of any shareholder concerns, our independent directors have discretion whether to convey any such information to our full Board. Shareholders may send other general communications to our Company by mail to our Secretary, Stephen J. Donaghy, at Universal Insurance Holdings, Inc., 1110 West Commercial Boulevard, Fort Lauderdale, Florida 33309.

We proactively engage with our shareholders on a variety of topics, including governance and executive compensation matters, throughout the year.

Committees and Committee Chairs

The Board has appointed strong committee chairs to lead each Board committee in its respective area. All committee chairs are independent and appointed annually by the Board. Committee chairs are responsible for setting meeting agendas, presiding at committee meetings, facilitating open communications with the Board and management and working directly with management in connection with committee matters. Our committees have the authority and the

resources to seek legal or other expert advice from independent sources. Each committee reports its actions and recommendations to the full Board on a regular basis.

The following table sets forth the current committee membership, chairpersons and audit committee financial experts for our Company:

Risk

		Nominating & Governance Committee	Investment Committee	Compensation Committee	Audit Committee	Committee	Audit Committee Financial Expert
Scott P. Callahan	I	Member	Member				
Kimberly D. Cooper						Member	
Sean P. Downes	C		Member				
Darryl L. Lewis	I	Chairperson			Member	Chairperson	
Ralph J. Palmieri	I		Chairperson				
Richard D. Peterson	I			Member	Chairperson		Expert
Michael A. Pietrangelo	I, LD	Member		Chairperson			
Ozzie A. Schindler	I				Member		Expert
Jon W. Springer			Member			Member	
Joel M. Wilentz, M.D.	I	Member		Member			

I - Independent director; C - Chairman of the Board; LD - Lead Director

Audit Committee

The Audit Committee provides oversight of the Company s financial management, internal audit department and independent auditor. The Audit Committee oversees the quality and effectiveness of the Company s internal controls, which provide reasonable assurance that assets are safeguarded and that financial reports are properly prepared. The Audit Committee also reviews and monitors the Company s financial reporting procedures, compliance and disclosure. In performing these functions, the Audit Committee meets periodically with the independent auditor, management and internal auditors (including in private sessions) to review their work and confirm that they are properly discharging their respective responsibilities. In addition, the Audit Committee appoints and evaluates the performance of the independent auditor.

The Audit Committee held six meetings in 2017.

The Board has determined that Messrs. Peterson and Schindler are each an audit committee financial expert as defined by Item 407(d)(5) of Regulation S-K promulgated by the SEC.

The Audit Committee s charter is publicly available on our website at www.universalinsuranceholdings.com. The Audit Committee annually reviews its charter to determine whether any changes are appropriate.

Compensation Committee

The Compensation Committee is responsible for establishing and overseeing the Company s executive compensation philosophy and principles, reviewing and recommending for approval by the independent directors the compensation for and employment agreement with our Chief Executive Officer, approving the compensation for and employment agreements with certain other executive officers, establishing and evaluating performance-based goals related to compensation, overseeing the design and administration of the 2009 Omnibus Incentive Plan, as amended from time to time (Omnibus Plan), and reviewing, and recommending for approval by the full Board, the compensation for our independent directors.

The Compensation Committee held eight meetings in 2017.

The Compensation Committee s charter is publicly available on our website at www.universalinsuranceholdings.com. The Compensation Committee annually reviews its charter to determine whether any changes are appropriate.

Nominating and Governance Committee

The Nominating and Governance Committee exercises general oversight with respect to the governance of the Board. It assists the Board by identifying individuals qualified to become directors and recommends to the Board nominees for the next annual meeting of shareholders and to fill vacancies in membership of the Board as they occur; recommends to the Board nominees for each committee of the Board; and considers matters relating to corporate governance

generally, including assessing the adequacy of our corporate governance policies and procedures and making recommendations to the Board, as appropriate, regarding modifications to such policies and procedures, including our Governance Guidelines and our certificate of incorporation and bylaws. The Nominating and Governance Committee also oversees the director self-evaluation process and is responsible for maintaining orientation and continuing education programs for all directors.

The Nominating and Governance Committee held three meetings in 2017.

The Nominating and Governance Committee s charter is publicly available on our website at www.universalinsuranceholdings.com. The Nominating and Governance Committee annually reviews its charter to determine whether any changes are appropriate.

Investment Committee

The Investment Committee s responsibilities include monitoring whether the Company has adopted and adheres to a rational and prudent investment strategy; monitoring whether investment actions are consistent with the Company s investment strategy, financial objectives and business goals; compliance with legal and regulatory requirements pertaining to investment and capital management and assessing the competence and performance of the Company s third-party investment advisers. The Investment Committee does not make operating decisions about market timing, sector rotation or security selection, which are the responsibilities of management and the Company s third-party investment advisers.

The Investment Committee held four meetings in 2017.

The Investment Committee s charter is publicly available on our website at www.universalinsuranceholdings.com. The Investment Committee annually reviews its charter to determine whether any changes are appropriate.

Risk Committee

The Risk Committee s responsibilities include designing, implementing and maintaining an effective risk management framework; evaluating and addressing risk management and capital management matters affecting the Company related to the design and implementation of the Company s risk management framework; assessing the Company s enterprise risk management capabilities; maintaining a risk-aware corporate culture; and developing risk tolerance protocols and procedures. The Risk Committee annually reviews the Company s risk tolerance levels, risk appetite statements and risk management policy.

The Risk Committee held two meetings in 2017.

The Risk Committee s charter is publicly available on our website at www.universalinsuranceholdings.com. The Risk Committee annually reviews its charter to determine whether any changes are appropriate.

Compensation Committee Interlocks and Insider Participation

Richard D. Peterson, Michael A. Pietrangelo and Joel M. Wilentz, M.D. served as members of the Compensation Committee during 2017. There are no Compensation Committee interlocks, meaning that none of our executive officers served on the compensation committee (or its equivalent) or board of directors of another entity for

which any of our directors served as an executive officer at any time during 2017.

No compensation committee member is or was an employee or officer of the Company or has any relationship with the Company requiring disclosure as a related party transaction.

Director Compensation

Each independent director currently receives an annual cash retainer of $85,000. In light of the workload and broad responsibilities of their positions, the Chairs of our Board committees each receive an additional annual cash retainer of $15,000. The independent directors are also entitled to receive discretionary grants of non-qualified stock options under our Omnibus Plan.

Messrs. Downes and Springer and Ms. Cooper are employees of the Company and do not receive additional compensation for their Board service.

Director Summary Compensation Table

The table below summarizes the compensation paid to our independent directors for the fiscal year ended December 31, 2017.

Name	Fees Paid in Cash ($)	Stock Awards [1] ($)	Total ($)
Scott P. Callahan	$ 85,000		$ 85,000
Darryl L. Lewis	$ 100,000		$ 100,000
Ralph J. Palmieri	$ 100,000		$ 100,000
Richard D. Peterson	$ 100,000		$ 100,000
Michael A. Pietrangelo	$ 100,000	$ 634,054	$ 734,054
Ozzie A. Schindler	$ 85,000		$ 85,000
Joel M. Wilentz, M.D.	$ 85,000		$ 85,000

1

On July 10, 2017, the Company granted Mr. Pietrangelo 25,413 shares of common stock to replace the value of a stock option award that had terminated in 2016 without being exercised. The grant date fair value of the stock issued was $634,054, based on the $24.05 per share closing price on such date, with one-half of these shares subject to transfer restrictions that lapse over two years. As of December 31, 2017, the number of equity awards (in the form of stock options) that were outstanding for each independent director was as follows: Mr. Callahan 40,000, Mr. Lewis 40,000, Mr. Palmieri 50,000, Mr. Peterson 50,000, Mr. Pietrangelo 85,000, Mr. Schindler 40,000 and Mr. Wilentz 40,000.

Stock Ownership Guidelines; No Hedging or Pledging Shares

We believe that our directors should be personally invested in the Company alongside our shareholders. It is expected that, within two years of joining the Board, each director will own shares of our common stock having a value of at least $25,000. Additionally, our

directors may not hedge or short shares of our common stock, engage in options trading, trade on margin or pledge shares of our common stock as collateral.

Each director is currently in compliance with these guidelines.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act) requires our directors, executive officers and persons who own more than 10% of the Company s common stock (collectively, Reporting Persons) to file initial reports of ownership and reports of changes in ownership with the SEC. Reporting Persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

Based solely on a review of copies of Forms 3, 4 and 5 provided to us and written representations by the Reporting Persons, we believe that, for the year ended December 31, 2017, all of the Reporting Persons timely filed their Section 16 reports.

Executive Officers

Our executive officers are elected annually by the Board and serve at the discretion of the Board. The current executive officers of the Company are as follows:

Name	Age	Position
Sean P. Downes	48	Chairman and Chief Executive Officer
Jon W. Springer	48	President, Chief Risk Officer and Director
Stephen J. Donaghy	53	Chief Operating Officer and Secretary
Frank C. Wilcox	52	Chief Financial Officer
Kimberly D. Cooper	40	Chief Administrative Officer, Chief Information Officer and Director

Our executive officers are collectively referred to in this Proxy Statement as our Named Executive Officers or NEOs. Biographical information about our Named Executive Officers is as follows.

Sean P. Downes. For biographical information on Sean P. Downes, see Director Nominees.

Jon W. Springer. For biographical information on Jon W. Springer, see Director Nominees.

Stephen J. Donaghy became the Chief Operating Officer of the Company as of March 10, 2016, and Secretary in February 2013. He also served as our Chief Marketing Officer from January 2015 to March 2016, Chief Administrative Officer from February 2013 to June 2015, Chief Information Officer from 2009 to February 2015 and Executive Vice President since 2006. Before joining the Company, Mr. Donaghy held various executive positions at JM Family Enterprises, a private company, including Vice President of Strategic Initiatives, Vice President of Sales and Marketing and Senior Information Officer.

Frank C. Wilcox became the Chief Financial Officer and Principal Accounting Officer of the Company and Chief Financial Officer and Treasurer of the Company s wholly-owned insurance subsidiaries in 2013. Mr. Wilcox served as the Company s Vice President Finance from 2011 to 2013. Prior to joining the Company, Mr. Wilcox held senior corporate accounting positions with Burger King Corporation (2006 to 2011) and BankUnited (2000 to 2006), as well as various auditing, finance, accounting and SEC reporting positions from 1989 to 2000 at Coopers & Lybrand, Blackstone, Dean Witter, CSFB and American Express. Mr. Wilcox has been licensed as a certified public accountant in New York since 1996.

Kimberly D. Cooper. For biographical information on Kimberly D. Cooper, see Director Nominees.

Table of Contents

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

We believe that the compensation provided to the Named Executive Officers for 2017 is aligned with our pay-for-performance philosophy and our overall business performance as evidenced by the key

financial and operational milestones presented on pages 2-3 of this Proxy Statement.

2017 Named Executive Officers

Name	Age	Position
Sean P. Downes	48	Chairman and Chief Executive Officer
Jon W. Springer	48	President, Chief Risk Officer and Director
Stephen J. Donaghy	53	Chief Operating Officer and Secretary
Frank C. Wilcox	52	Chief Financial Officer
Kimberly D. Cooper	40	Chief Administrative Officer, Chief Information Officer and Director

This Compensation Discussion and Analysis (the CD&A) provides an overview of the Company s executive compensation program and executive compensation philosophies and objectives. The Compensation Committee oversees our compensation program for our Named Executive Officers and the equity compensation program for the Company s employees generally.

The Compensation Committee designs our executive compensation program to:

- attract, retain and reward high-performing executive officers who will drive Company growth and profitability;
- increase long-term value for shareholders;
- manage the Company in a prudent and responsible manner; and
- maintain and enhance the Company s reputation for operational excellence.

In making its decisions, the Compensation Committee takes into account, among other things:

the Company s performance;

shareholder alignment;

individual employee performance;

the Company s executive retention needs;

the recommendations of the Chief Executive Officer;

the terms of applicable employment agreements with the Named Executive Officers; and

the advice of the Compensation Committee s independent compensation consultant and outside legal counsel.

Recent Developments

Response to 2017 Say-on-Pay Shareholder Vote

At the 2017 Annual Meeting of Shareholders, the Company s shareholders did not approve, on an advisory basis, the compensation paid to the Company s Named Executive Officers for the year ended December 31, 2016. Of the votes cast, the say-on-pay resolution received 47%.

After this meeting, the Compensation Committee and senior management evaluated how to be responsive to the concerns of shareholders as reflected in this vote, particularly in view of the fact that Mr. Downes s 2016 Employment Agreement does not expire until December 31, 2018, and Mr. Springer s 2016 Employment Agreement expired on December 31, 2017.

Mr. Downes proposed an arrangement pursuant to which he would surrender the $4.4 million of stock options and $3.0 million of Performance Stock Units (PSUs) he received for 2017 pursuant to the terms of his 2016 Employment Agreement and forgo the $4.4 million and $3.0 million of stock options and PSUs, respectively, that he is entitled to for 2018.

In consultation with the Compensation Committee, the Company evaluated the financial accounting and tax implications of any such surrender, and determined that any such action would be negative for the Company.

From a financial accounting standpoint, any such surrender would accelerate the compensation expense attributable to the stock options and PSUs. From a tax standpoint, as this evaluation was undertaken after the enactment of P.L. 115-97, commonly referred to as the Tax Cuts and Jobs Act (Tax Act) on December 22, 2017, the Company was concerned that any such surrender would be viewed as a material modification to Mr. Downes s 2016 Employment Agreement, thereby jeopardizing the Company s grandfathered tax deductibility for amounts paid pursuant to certain written binding contracts in place on November 2, 2017. See the discussion at Tax Considerations below.

The Company was similarly concerned that not complying with the terms of Mr. Downes s 2016 Employment Agreement *i.e.*, by not granting the $4.4 million in stock options and $3.0 million of PSUs to Mr. Downes in 2018 would also effectively be viewed as a material modification to his 2016 Employment Agreement, thereby also jeopardizing the Company s grandfathered tax deductibility.

In view of the negative consequences to the Company from a financial accounting standpoint and a tax standpoint, the Compensation Committee determined that it was not advisable to alter the terms of Mr. Downes s compensation arrangements. Instead, the Compensation Committee negotiated Mr. Springer s 2018 Employment Agreement, as described below, with a view to similarly modifying Mr. Downes s future employment agreement, which will likely be in effect as of January 1, 2019, and set the duration of Mr. Springer s agreement to one year, so that the Compensation Committee will negotiate Mr. Downes s and Mr. Springer s employment agreements for 2019 and beyond at the same time.

2018 Employment Agreements

On February 22, 2018, the Company entered into new two-year employment agreements with Messrs. Donaghy and Wilcox and Ms. Cooper, and on April 11, 2018, the Company entered into a new one year employment agreement with Mr. Springer (collectively, the 2018 Employment Agreements). Messrs. Donaghy s and Wilcox s 2018 Employment Agreements are not materially different than their prior agreements, other than a restricted stock grant of 50,000 shares to Mr. Wilcox in 2018, which vests over three years. Ms. Cooper did not have an employment agreement before 2018.

Mr. Springer s new agreement contains a materially different incentive compensation program, as set forth below, which the Compensation Committee developed in response to the negative say-on-pay vote at the 2017 annual shareholder meeting and in consultation with Pay Governance LLC (Pay Governance), an independent adviser to the Compensation Committee.

2018 Annual Incentive Compensation for Mr. Springer

Pursuant to his 2018 Employment Agreement, for 2018, Mr. Springer is entitled to receive an annual incentive award equal to a percentage of his target bonus of $4.5 million (the Target) only if the Company s return on average equity, calculated on a basis that does not reflect the accrual of the annual incentive awards to Messrs. Downes, Springer and Donaghy (CROAE , as defined in Mr. Springer s 2018 Employment Agreement), is at least 10%, as follows:

CROAE	% of Target
10%	25.0%
15%	50.0%
20%	75.0%
25%	85.0%
30%	100.0%
35%	110.0%
40%	120.0%

For CROAE between two thresholds, the applicable percentage of the Target will be determined by straight-line interpolation between the applicable thresholds. CROAE is being used to determine annual incentive compensation for Mr. Springer because management must focus on this performance measure to manage and operate the Company profitably and to grow the Company s business. This award will be subject to the maximum shareholder-approved amount for an annual incentive award under the Omnibus Plan.

In contrast, for 2017, Mr. Springer was entitled to receive an annual incentive award if the Company s pre-tax income before the calculation of annual incentive awards paid to Messrs. Downes, Springer and Donaghy (as calculated, the Compensation Pre-Tax Income) exceeded $113.5 million. If this threshold was met, Mr. Springer s annual incentive would equal 1.875% of Compensation Pre-Tax Income if it is less than or equal to $125 million, or 2.5% if it is greater than $125 million. For 2017, Compensation Pre-Tax Income was $184.0 million, and Mr. Springer s annual incentive award was $4,601,177.

Table of Contents

EXECUTIVE COMPENSATION CONTINUED

2018 Equity Incentive Compensation for Mr. Springer

Similar to his prior employment agreement, under his 2018 Employment Agreement, Mr. Springer is entitled to receive PSUs with an annual grant date target value of $1 million. The PSUs are subject to both performance vesting and time vesting conditions, similar to prior PSU grants. However, Mr. Springer is no longer entitled to receive stock options with a grant date fair value of $1.5 million.

Rather, the amount of his annual stock option grant, if any, shall be at the discretion of the Compensation Committee, which gives the Committee flexibility to exercise its judgment in view of facts and circumstances at the time of grant.

Tax Considerations

Prior to the December 22, 2017 enactment of the Tax Act, Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code) provided that no U.S. income tax deduction was allowable to

a publicly held corporation for non-performance-based compensation in excess of $1 million paid to a covered employee (generally, the NEOs other than the CFO).

The Tax Act includes numerous changes to existing law, including (1) eliminating the exclusions for commissions or performance-based compensation paid to covered employees under Code Section 162(m), (2) expanding the definition of covered employee to include anyone serving as CEO or CFO at any point during the year, as well as the three most highly compensated officers as shown in SEC disclosures, and (3) providing that status as a covered employee continues to apply if the person was ever a covered employee for years ending after December 31, 2016. The Tax Act is effective for tax years beginning after 2017, though it includes a transition rule for compensation paid pursuant to certain written binding contracts (such as Mr. Downes s employment agreement) in place on November 2, 2017 which are not materially modified.

2017 Compensation Components

Other than for Ms. Cooper, who did not have an employment agreement during 2017, the compensation for the Named Executive Officers in 2017 was determined by the terms of the 2016 Employment Agreements, as defined below, in place for each such officer as well as by the Compensation Committee s discretionary decisions to grant certain equity awards to the Named Executive Officers. For Mr. Wilcox, his 2016 Employment Agreement expired on October 1, 2017 and his compensation from October 1, 2017 to December 31, 2017 was determined by the terms of his 2018 Employment Agreement, as defined below.

Base Salary

For Messrs. Downes, Springer and Donaghy, base salaries were established in their 2016 Employment Agreements. For Mr. Wilcox, his salary before October 1, 2017 was established in his 2016 Employment Agreement and, after October 1, 2017, in his 2018 Employment Agreement. Messrs. Downes s and Springer s base salaries will not be increased or decreased during the term of their 2016 Employment Agreements. Base salaries for Messrs. Donaghy and Wilcox and Ms. Cooper may be adjusted by the Compensation Committee at its discretion. In general, base salaries for our NEOs depend on a number of factors, including the size, scope and impact of their role, the market value associated with their role, leadership skills and values, length of service, and individual performance and contributions.

Annual Incentive Compensation

Pursuant to their 2016 Employment Agreements, Messrs. Downes and Springer are entitled to receive an annual incentive award only if the Company s Compensation Pre-Tax Income exceeds $113.5 million for 2017. If this threshold is met, for Mr. Downes, his annual incentive will equal 3% of Compensation Pre-Tax Income if it is less than or equal to $125 million, or 4% of Compensation Pre-Tax Income if it is greater than $125 million. For Mr. Springer, his annual incentive will equal 1.875% of Compensation Pre-Tax Income if it is

less than or equal to $125 million, or 2.5% if it is greater than $125 million. Under his 2016 Employment Agreement, Mr. Donaghy is entitled to an annual incentive award equal to 1.5% of the Company s net income, which includes the effects of Messrs. Downes s and Springer s annual incentive awards and estimated tax payments using the Company s statutory rate, but not Mr. Donaghy s annual incentive award (as calculated, the Compensation Net Income). Compensation Pre-Tax Income and Compensation Net Income are used to determine annual incentive compensation for these individuals because management must focus on these performance measures to manage and operate the Company profitably and to grow the Company s business. This approach to annual incentives recognizes the central roles of Messrs. Downes, Springer and Donaghy within the Company. In each case, these awards will be subject to the maximum shareholder-approved amount for an annual incentive award under the Omnibus Plan.

For 2017, the Company s Compensation Pre-Tax Income was $184.0 million and Compensation Net Income was $106.7 million. The Compensation Committee therefore approved annual incentive awards for 2017 of $7,361,883 for Mr. Downes, $4,601,177 for Mr. Springer and $1,600,381 for Mr. Donaghy.

Mr. Wilcox and Ms. Cooper were not subject to a formulaic annual compensation program in 2017. Based on the recommendation of Mr. Downes, the Compensation Committee awarded discretionary bonuses in the amounts of $275,000 for Mr. Wilcox and $100,000 for Ms. Cooper. Mr. Downes s recommendation to the Compensation Committee for such discretionary bonuses was based primarily on Mr. Wilcox s leadership of the Company s finance and accounting functions and Ms. Cooper s leadership in the areas of information technology and risk management. In approving the bonus for Mr. Wilcox, the Compensation Committee also took into account input from Mr. Peterson, the Chair of the Audit Committee.

Equity Incentive Compensation

Pursuant to their 2016 Employment Agreements, Messrs. Downes and Springer each received grants of PSUs and stock options in 2017. The PSUs are subject to both performance vesting and time

vesting conditions. For each annual period, the Compensation Committee establishes a performance objective that is set at a target level intended to be challenging yet attainable. No portion of a PSU award shall be earned, and the entire amount will be forfeited, if the target level is not met. In the event the target level is met at the end of the year, two-thirds of the PSU grant will be vested, and the remaining one-third will vest ratably over the following two years. The unvested PSUs will be entitled to receive dividend equivalents, which amounts will be subject to the same time-vesting conditions as the PSUs.

For 2017, the performance objective and target level was to increase the aggregate amount of in-force rate adequate premiums from states other than Florida by at least 25% as compared to 2016. The Company met and exceeded this target level, increasing in-force rate adequate premiums from states other than Florida by 40.4% as compared to 2016. Growth in non-Florida premiums is used to incentivize Messrs. Downes and Springer to execute on the Company s strategy to increase the Company s policies in-force outside of Florida in order to grow profitability and diversify revenue and risk.

Under their 2016 Employment Agreements, Messrs. Downes and Springer are entitled to receive PSUs with an annual grant date target value of $3 million and $1 million, respectively (the number of PSUs is based on the applicable dollar value divided by the closing sale price of the Company s common stock on the date of grant) and stock options with a grant date fair value of $4.4 million and $1.5 million, respectively, as calculated in accordance with the Black-Scholes pricing model used by the Company for financial accounting purposes. The stock options vest ratably over a three-year period.

In general, the Company uses grants of stock options to focus executives on delivering long-term value to shareholders because options have value only to the extent that the price of Company stock on the date of exercise exceeds the stock price on the grant date, as well as to retain executives. The Company did not grant equity awards to the other NEOs in 2017.

Perquisites and Other Benefits

In 2017, the Company provided the following benefits to each of Messrs. Downes, Springer and Donaghy: (1) executive-only Company-paid medical and dental and disability insurance premiums; (2) annual automobile allowance; and (3) executive-only Company-paid premiums for each executive s term life insurance policy with a death benefit in the amount of $1 million. Mr. Wilcox and Ms. Cooper each also received an annual automobile allowance.

Other than as discussed herein, our Named Executive Officers participate in our corporate-wide benefit programs, which includes participation in the Company s 401(k) plan. In addition, the Company believes that executives should be able to provide for their retirement needs from the total annual compensation and thus the Company

does not provide its Named Executive Officers with any tax-qualified or nonqualified defined benefit pension plans, supplemental executive retirement plans, deferred compensation plans or other forms of compensation for retirement.

Compensation Clawback Policy

Our clawback policy is designed to mitigate risk in connection with executive compensation. The clawback policy seeks to recover certain compensation awarded under our Omnibus Plan. Specifically, the clawback policy provides that if the Board determines that:

- we are required to restate our financial statements due to material noncompliance with any financial reporting requirement under the law, whether or not such noncompliance is the result of misconduct, and

- the prior determination of the level of achievement of any performance goal used under the Omnibus Plan is materially incorrect and that such determination caused the award of cash or shares in an amount greater than what should have been paid or delivered had such determination been correct, then

the employee must reimburse the Company for the amount of overpayment with respect to an award under the Omnibus Plan, as well as to the extent required by and otherwise in accordance with applicable law and our policies as may be adopted from time to time.

No Hedging or Pledging Shares

Our executive officers and senior accounting and finance personnel may not hedge or short shares of our common stock, engage in options trading, trade on margin or pledge shares of our common stock as collateral.

Compensation Risk Assessment

Our executive compensation program is intended to address, among other things, whether the program pays our executives for performance and whether the program encourages unnecessary or excessive risk taking. We do not believe that our current compensation program creates risks that are reasonably likely to have a material adverse effect on the Company for the following reasons:

- annual incentive awards are tied to pre-tax income and net income, rather than sales or revenue targets, which could encourage the production of unprofitable business;

- a significant portion of total compensation is linked to the Company s long-term performance, which encourages the creation of shareholder value and achievement of key operational and business development goals; and

- our clawback policy provides additional assurance that risks associated with our compensation plans and policies are further mitigated.

Table of Contents

History of Compensation Program Evolution

2013: Introduction of New Leadership Team

In February 2013, when we appointed a new leadership team from within our Company namely, Messrs. Downes, Springer and Donaghy we entered into new employment agreements with each of them that largely replicated the employment agreements in place with the out-going leadership team. Mr. Downes s agreement expired on December 31, 2015. At the end of 2014, we renewed Mr. Springer s and Mr. Donaghy s agreements for one more year, until December 31, 2015, to give management and the Compensation Committee time to formulate a revised compensation program for all three of these Named Executive Officers.

2015: Evaluate Existing Agreements and Conduct Robust Shareholder Outreach

During 2015 and the early part of 2016, the Compensation Committee negotiated new employment agreements with each of these Named Executive Officers as well as with Mr. Wilcox, who became our Chief Financial Officer in October 2013, and whose employment agreement expired in October 2015, including re-evaluating each of the components of the total compensation payable to the Company s senior management. In so doing, both senior management and the Compensation Committee were mindful of the fact that the prior employment agreements, which largely tracked the design used by the prior leadership team, were not adequately structured to anticipate the strong success realized by the current leadership team s entrepreneurial approach. Management and the Compensation Committee were also focused on the results of the shareholder vote on the Company s say-on-pay proposal at our 2014 Annual Meeting, at which 50.2% of the shares cast approved the compensation paid to our Named Executive Officers and, conversely, at which almost half of the shares cast did not approve of our pay program. We recognize and appreciate the fundamental interest that our shareholders have in the compensation of our executive officers and attempted in the new employment agreements to achieve a greater alignment between shareholder value creation and executive pay in the context of our historical compensation levels and practices.

In 2015, the Compensation Committee retained Pay Governance, to advise the Compensation Committee on the Company s compensation program for senior management. Pay Governance still serves as an adviser to the Compensation Committee. Pay Governance reports directly to the Compensation Committee and has no other relationships with the Company and provides no other services to the Company. The Compensation Committee works with Pay Governance to review various alternatives for pay design and discussed these compensation alternatives with the Company s senior management as well as with the Compensation Committee s

outside legal counsel. The Compensation Committee considered market data on compensation programs and pay levels at other

companies, but did not set pay levels for 2016 or for future years based on pay levels at competitors or based on any identified peer group of companies. In addition, at the Compensation Committee s request, management conducted a robust shareholder outreach program, engaging with institutional shareholders holding approximately 40% of our outstanding common stock, as of December 31, 2015, on executive compensation issues.

2016: New Employment Agreements Revised to Reflect Strong Success Realized by New Leadership Team and Respond to Shareholder Feedback

On January 12, 2016, the Company entered into a new three-year employment agreement with Mr. Downes and new two-year employment agreements with Messrs. Springer, Donaghy, and Wilcox (the 2016 Employment Agreements). The agreements were reviewed on multiple occasions by the independent directors and were approved by the Board (Messrs. Downes and Springer abstaining) upon the recommendation of the Compensation Committee. In consultation with its independent compensation consultant and outside legal counsel, the Compensation Committee considered a range of factors in developing and finalizing the employment agreements, including:

- the feedback the Company solicited from its institutional investors regarding the prior employment agreements between the Company and the executives;
- the proposals from management regarding the terms of the 2016 Employment Agreements and management s reactions to various alternative pay structures suggested by Pay Governance;

the Company s financial performance;

total shareholder return and operational and organizational accomplishments since this executive team assumed leadership in February 2013;

the importance to the Company of continuing to retain each of Messrs. Downes and Springer;

the historical pay levels awarded to the leadership team,

the compensation levels requested by Messrs. Downes and Springer in the course of negotiation of the 2016 Employment Agreements; and

the leadership team s commitment to the Company s strategic initiatives and anticipated further successes. Within the context of the negotiations of the 2016 Employment Agreements, the Compensation Committee endeavored to tie the compensation of Messrs. Downes and Springer more closely to the achievement of performance goals.

Table of Contents

2017 Summary Compensation Table

The following table sets forth the compensation paid to or earned by the Named Executive Officers during each of the Company s last three years.

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)	Option Awards (2)	Non-Equity Incentive Plan Compensation (3)	All Other Compensation (4)	Total
Sean P. Downes,	2017	$ 2,217,499		$ 2,999,997	$ 6,613,750	$ 7,361,883	$ 59,768	$ 19,252,897
Chairman and CEO	2016	$ 2,306,456		$ 3,000,002	$ 3,939,027	$ 7,033,024	$ 57,714	$ 16,336,223
	2015	$ 2,278,015		$ 13,240,000	$ 1,939,795	$ 7,504,396	$ 70,128	$ 25,032,334
Jon W. Springer,	2017	$ 1,340,625		$ 1,000,008	$ 1,499,999	$ 4,601,177	$ 28,012	$ 8,469,821
President, Chief Risk Officer and Director	2016	$ 1,392,187		$ 1,000,008	$ 1,906,035	$ 4,395,640	$ 27,359	$ 8,721,229
	2015	$ 1,337,416		$ 1,811,250		$ 4,721,498	$ 35,388	$ 7,905,552
Stephen J. Donaghy,	2017	$ 804,375		$		$ 1,600,381	$ 65,469	$ 2,470,225
Chief Operating Officer	2016	$ 835,313				$ 1,514,096	$ 59,141	$ 2,408,550
	2015	$ 802,514		$ 966,000		$ 1,610,902	$ 55,538	$ 3,434,954
Frank C. Wilcox,	2017	$ 390,144	$ 275,000				$ 16,408	$ 681,552
Chief Financial Officer	2016	$ 393,462	$ 250,000		$		$ 13,250	$ 656,712
	2015	$ 350,000	$ 200,000		143,338		$ 13,250	$ 706,588
Kimberly D. Cooper,	2017	$ 200,000	$ 100,000				$ 18,300	$ 318,300
Chief Admin. Officer, Chief Information Officer and Director	2016	$ 207,692	$ 75,000		$		$ 30,534	$ 313,226
	2015	$ 196,923	$ 50,000		143,338		$ 26,309	$ 416,570

(1) *The amounts reported in this column for 2017 represent the aggregate grant date fair value of the PSUs granted to Messrs. Downes and Springer pursuant to their 2016 Employment Agreements. Grant date fair value, which is the closing price of our stock on the date of grant, is computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation Stock Compensation (FASB ASC Topic 718) without regard to forfeitures related to service-based vesting conditions.*

(2) *The amounts reported in this column for 2017 represent the aggregate grant date fair value of the stock option awards granted to Messrs. Downes and Springer pursuant to their 2016 Employment Agreements. The amounts disclosed for option awards represent the grant date fair value computed in accordance with FASB ASC Topic 718, which was $10.18, and are estimated using a Black-Scholes option-pricing model utilizing the following assumptions on a weighted average basis: weighted-average volatility, 45.1%; dividend yield, 2.0%; weighted-average risk free interest rate, 1.94%; and expected term in years, 5.84. See Note 9 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2017 for a discussion of the relevant assumptions used in calculating these amounts.*

(3) The amounts reported in this column for 2017 represent the annual incentive compensation payable to certain of our Named Executive Officers pursuant to their 2016 Employment Agreements and the Omnibus Plan. Specifically, because the Company s Compensation Pre-Tax Income for 2017 was greater than the $125 million target set forth in their agreements, Mr. Downes was entitled to an annual incentive award equal to 4% of Compensation Pre-Tax Income, and Mr. Springer was entitled to an annual incentive award equal to 2.5% of Compensation Pre-Tax Income. Mr. Donaghy was entitled to an annual incentive award equal to 1.5% of the Company s Compensation Net Income.

(4) For further details regarding all other compensation contained in this column, see the 2017 All Other Compensation table below.

2017 All Other Compensation Table

The following table sets forth amounts related to the All Other Compensation column in the Summary Compensation Table for the year ended December 31, 2017.

	Insurance Premiums					
Name	Medical/ Dental	Life/ Disability	Long-Term Care	401(k) Match	Auto Allowance and Related Expenses	Total
Sean P. Downes	$ 26,946	$ 10,708	$ 2,614	$ 13,500	$ 6,000	$ 59,768
Jon W. Springer	$ 5,555	$ 1,757		$ 13,500	$ 7,200	$ 28,012
Stephen J. Donaghy	$ 32,527	$ 4,591	$ 8,851	$ 13,500	$ 6,000	$ 65,469
Frank C. Wilcox				$ 13,500	$ 2,908	$ 16,408
Kimberly D. Cooper				$ 13,500	$ 4,800	$ 18,300

Table of Contents

EXECUTIVE COMPENSATION CONTINUED

2017 Grants of Plan-Based Awards

The following table sets forth certain information with respect to grants of executive compensation plan-based awards to the Named Executive Officers during the year ended December 31, 2017.

		Estimated Future Payouts under Non-Equity Incentive Plan Awards	Estimated Future Payouts under Equity Incentive Plan Awards			All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards [4]
		Threshold	Threshold	Target	Maximum			
Name	Grant Date	($)	(#)	(#)	(#)	(#)		
Sean P. Downes	1/20/2017			110,294 [1]				$ 2,999,997
	1/20/2017	$ 2,370,000 [2]						
	1/20/2017					650,000 [3]	$ 27.20	$ 6,613,750
Jon W. Springer	1/20/2017			36,765 [1]				$ 1,000,008
	1/20/2017	$ 1,481,250 [2]						
	1/20/2017					147,420 [3]	$ 27.20	$ 1,499,999
Stephen J. Donaghy		[5]						
Frank C. Wilcox								
Kimberly D. Cooper								

(1) *PSUs granted to Mr. Downes and Mr. Springer pursuant to the terms of their 2016 Employment Agreements. These PSUs are subject to both performance-based and time-based vesting conditions.*

(2) *For Mr. Downes and Mr. Springer, this amount represents the threshold annual incentive award they would receive if the Company earned at least $113.5 million in Compensation Pre-Tax Income in 2017. If so, then Mr. Downes and Mr. Springer would receive a threshold amount of at least 3% and 1.875% of Compensation Pre-Tax Income, respectively.*

(3) *These stock options were issued pursuant to Messrs. Downes s and Springer s 2016 Employment Agreements. Although Mr. Downes is entitled to receive $4.4 million of stock options annually pursuant to his 2016 Employment Agreement, the Omnibus Plan caps the number of stock options that any individual can receive in a calendar year to 650,000. Mr. Downes received 450,000 stock options, with a grant date fair value of $2.7 million, pursuant to his 2016 Employment Agreement in 2016, as his signing bonus of 200,000 stock options in 2016 capped him at 650,000 stock options for 2016. Accordingly, the remaining amount of stock options he did not receive in 2016 was granted in 2017. As a result, in 2017, Mr. Downes received 650,000 stock options, with a grant date fair value of $6.6 million, which includes the 2016 carryover amount.*

(4) *The amounts shown in this column are valued based on the aggregate grant date fair value computed in accordance with FASB ASC Topic 718. See notes (1) and (2) of the 2017 Summary Compensation Table above for a discussion of the relevant assumptions used in calculating these amounts.*

(5) *Mr. Donaghy is entitled to receive an annual incentive award of 1.5% of the Company s Compensation Net Income, whatever that amount happens to be. Accordingly, there is no threshold amount of this award.*

Table of Contents

2017 Outstanding Equity Awards at Year-End

The following table sets forth certain information with respect to the Named Executive Officers with regard to unexercised options, stock that has not vested and equity incentive plan awards outstanding as of December 31, 2017.

	Options Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (Exercisable)	Number of Securities Underlying Unexercised Options (Unexercisable)	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested [8]
Sean P. Downes		100,000 [1]	$ 8.01	11/12/2020		
	175,000	125,000 [2]	$ 24.18	6/15/2022		
	66,666	133,334 [3]	$ 19.52	2/28/2026		
	150,000	300,000 [4]	$ 19.52	2/28/2026		
		650,000 [5]	$ 27.20	1/20/2027		
					43,141 [6]	$ 1,179,906
					110,294 [7]	$ 3,016,541
Jon W. Springer	22,333	44,667 [3]	$ 19.52	2/28/2026		
	82,508	165,017 [3]	$ 19.52	2/28/2026		
		147,420 [5]	$ 27.20	1/20/2027		
					14,380 [6]	$ 393,293
					36,765 [7]	$ 1,005,523
Stephen J. Donaghy		66,667 [1]	$ 8.01	11/12/2020		
Frank C. Wilcox	16,666	8,334 [9]	$ 24.58	3/13/2020		
Kimberly D. Cooper	16,666	8,334 [9]	$ 24.58	3/13/2020		

(1) *The options held by Messrs. Downes and Donaghy with an exercise price of $8.01 will vest on November 12, 2018.*

(2) *The options held by Mr. Downes with an exercise price of $24.18 will vest: 75,000 shares on June 15, 2018 and 50,000 shares on June 15, 2019.*

(3) *The options held by Messrs. Downes and Springer with an exercise price of $19.52 will ratably vest on February 28, 2018 and 2019.*

(4) *The options held by Mr. Downes with an exercise price of $19.52 will ratably vest on January 15, 2018 and 2019.*

(5) *The options held by Messrs. Downes and Springer with an exercise price of $27.20 will ratably vest on January 20, 2018, 2019 and 2020.*

(6) *The PSUs held by Messrs. Downes and Springer that are subject to time-based vesting conditions will ratably vest on January 1, 2018 and 2019.*

(7) *The PSUs held by Messrs. Downes and Springer are subject to both performance-based and time-based vesting conditions: assuming the performance condition is satisfied, two-thirds of the PSUs will vest on January 20, 2018 and one-sixth of the PSUs on each of January 20, 2018 and 2019.*

(8) *Calculated based on closing stock price of $27.35 on December 29, 2017.*

(9) *The options held by Mr. Wilcox and Ms. Cooper will vest on March 13, 2018.*

Options Exercised and Stock Vested

The following table sets forth certain information with respect to the Named Executive Officers concerning options exercised and stock vested during the year ended December 31, 2017.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting	Value Realized on Vesting
Sean P. Downes	200,000	$ 3,588,000	86,281	$ 2,480,579
Jon W. Springer	266,667	$ 4,966,674	28,761	$ 826,879
Stephen J. Donaghy	133,333	$ 2,445,327		
Frank C. Wilcox				
Kimberly D. Cooper				

Table of Contents

EXECUTIVE COMPENSATION CONTINUED

Employment Agreements and Potential Payments Upon Termination or Change in Control

The following summaries describe the material terms of the 2016 Employment Agreements for Messrs. Downes, Springer and Donaghy and Mr. Wilcox s 2016 Employment Agreement and 2018 Employment Agreement.

2016 Employment Agreement with Mr. Downes

Pursuant to his 2016 Employment Agreement, Mr. Downes is entitled to receive an annual base salary of $2,217,500, which amount will not be increased or decreased during the three-year term of the agreement. Mr. Downes is entitled to receive an annual cash incentive award if the Company s Compensation Pre-Tax Income is not less than a PTI Floor . For 2016, the PTI Floor was $79 million. For 2017 and 2018, the PTI Floor will be 85% of the average of the Company s Compensation Pre-Tax Income for the prior five calendar years. In the event the PTI Floor is met, then Mr. Downes is entitled to receive an annual cash incentive award equal to 3% of the Company s Compensation Pre-Tax Income if such amount is greater than the PTI Floor but less than or equal to $125 million; and Mr. Downes is entitled to receive an annual cash incentive award equal to 4% of the Company s Compensation Pre-Tax Income if the Company s PTI Floor is greater than $125 million. Mr. Downes is also entitled to receive an annual grant of PSUs with a target value of $3 million and stock options with a grant date fair value of $4.4 million. See 2017 Compensation Components for more information about these grants.

In the event of a change in control and Mr. Downes is terminated without cause or resigns for good reason within 24 months after such change in control, Mr. Downes would be entitled to a lump-sum cash amount equal to 48 months base salary, plus two times any bonus paid for the preceding fiscal year, subject to his execution of a general release of claims in favor of the Company. All stock options and PSUs would immediately vest and become exercisable and payable, respectively. All such change in control payments would be reduced to the extent they would constitute an excess parachute payment within the meaning of Section 280G of the Code, if such reduction would result in Mr. Downes receiving a higher net after-tax amount.

If Mr. Downes is terminated without cause or resigns for good reason, he would be entitled to a lump-sum cash amount equal to 12 months base salary and 12 months of COBRA coverage, subject to his execution of a general release of claims in favor of the Company. He would also be entitled to receive a pro rata portion of his annual incentive award for the year of termination, calculated on the basis of the Company s actual performance for such year. Any stock options that would have vested had he been continuously employed through the end of the one-year period following the termination date will fully vest as of the termination date and shall remain exercisable for one year. In addition, any PSUs that would have vested had he been continuously employed through the end of the one-year period following the termination date will vest based on actual performance for the full performance year, determined after the end of the performance year.

If Mr. Downes becomes disabled during the term of his agreement, then the Company would be entitled to suspend his officership, but Mr. Downes would be entitled to remain an employee of the Company and receive his compensation and benefits for the lesser of

(i) one year from the date of such suspension or (ii) the date on which he is first eligible for long-term disability payments under the Company s long-term disability plan. If Mr. Downes is terminated due to disability or dies during the term of his agreement, he or his estate, respectively, would be entitled to receive a pro rata portion of his annual incentive award for the year of termination, calculated on the basis of the Company s actual performance for such year.

Mr. Downes s agreement also contains noncompete, nondisparagement, nonsolicitation and confidentiality provisions.

2016 Employment Agreement with Mr. Springer

Pursuant to his 2016 Employment Agreement, Mr. Springer is entitled to receive an annual base salary of $1,340,625, which amount will not be increased or decreased during the two-year term of the agreement. Mr. Springer is entitled to receive an annual cash incentive award in 2016 and 2017 if the Company s Compensation Pre-Tax Income for those periods is not less than the same PTI Floor applicable to Mr. Downes s annual cash incentive award. In the event the PTI Floor is met, then Mr. Springer is entitled to receive an annual cash incentive award equal to 1.875% of the Company s Compensation Pre-Tax Income if such amount is greater than the PTI Floor but less than or equal to $125 million; and Mr. Springer is entitled to receive an annual cash incentive award equal to 2.5% of the Company s Compensation Pre-Tax Income if the Company s PTI Floor is greater than $125 million. Mr. Springer is also entitled to receive an annual grant of PSUs with a target value of $1 million and annual grant of stock options with a grant date fair value of $1.5 million, both subject to the same terms and conditions applicable to Mr. Downes s PSUs and stock options, respectively.

In the event of a change in control and Mr. Springer is terminated without cause or resigns for good reason within 24 months after such change in control, Mr. Springer would be entitled to a lump-sum cash amount equal to 48 months base salary, plus two times any bonus paid for the preceding fiscal year, subject to his execution of a general release of claims in favor of the Company. All stock options and PSUs would immediately vest and become exercisable and payable,

respectively. All such change in control payments would be reduced to the extent they would constitute an excess parachute payment within the meaning of Section 280G of the Code, if such reduction would result in Mr. Springer receiving a higher net after-tax amount.

If Mr. Springer is terminated without cause or resigns for good reason, he would be entitled to a lump-sum cash amount equal to 12 months base salary and 12 months of COBRA coverage, subject to his execution of a general release of claims in favor of the Company. He would also be entitled to receive a pro rata portion of his annual incentive award for the year of termination, calculated on the basis of the Company s actual performance for such year. Any stock options that would have vested had he been continuously employed through the end of the one-year period following the termination date will fully vest as of the termination date and shall remain exercisable for one year. In addition, any PSUs that would have vested had he been continuously employed through the end of the one-year period following the termination date will vest based on actual performance for the full performance year, determined after the end of the performance year.

If Mr. Springer becomes disabled during the term of his agreement, then the Company would be entitled to suspend his officership, but Mr. Springer would be entitled to remain an employee of the Company and receive his compensation and benefits for the lesser of (i) one year from the date of such suspension or (ii) the date on which he is first eligible for long-term disability payments under the Company s long-term disability plan. If Mr. Springer is terminated due to disability or dies during the term of his agreement, he or his estate, respectively, would be entitled to receive a pro rata portion of his annual incentive award for the year of termination, calculated on the basis of the Company s actual performance for such year.

Mr. Springer s agreement also contains noncompete, nondisparagement, nonsolicitation and confidentiality provisions.

2016 Employment Agreement with Mr. Donaghy

Pursuant to his 2016 Employment Agreement, Mr. Donaghy is entitled to receive an annual base salary of $804,375, with any subsequent increases at the discretion of the Compensation Committee, and an annual cash incentive award equal to 1.5% of the Company s Compensation Net Income.

In the event of a change in control and Mr. Donaghy is terminated without cause or resigns for good reason within 24 months after such change in control, Mr. Donaghy would be entitled to a lump-sum cash amount equal to 24 months base salary, and all stock options would immediately vest and become exercisable. All such change in control payments would be reduced to the extent they would constitute an excess parachute payment within the meaning of Section 280G of the Code.

If Mr. Donaghy is terminated without cause or resigns for good reason, he would be entitled to receive a lump-sum cash amount equal to his base salary for the remaining term of the agreement, which expires on December 31, 2017, and a pro rata portion of his annual incentive award for the year of termination, calculated on the basis of the Company s actual performance for such year, subject to his execution of a general release of claims in favor of the Company.

Mr. Donaghy s agreement also contains noncompete, nondisparagement, nonsolicitation and confidentiality provisions.

2016 and 2018 Employment Agreements with Mr. Wilcox

Pursuant to his 2016 Employment Agreement, Mr. Wilcox is entitled to receive an annual base salary of $375,000 until October 1, 2017; his 2018 Employment Agreement increased his annual base salary to $412,500 as of October 1, 2017, with any subsequent increases to be determined by the Compensation Committee based on a recommendation by Mr. Downes, and an annual bonus as determined by the Compensation Committee in its sole discretion.

Under the 2018 Employment Agreement, if Mr. Wilcox is terminated without cause, he would be entitled to receive a lump-sum cash amount equal to his base salary for the remaining term of the agreement, which expires on December 31, 2019, subject to his execution of a general release of claims in favor of the Company.

Mr. Wilcox s agreement also contains noncompete, nondisparagement, nonsolicitation and confidentiality provisions.

2017 Potential Payments Upon Termination or Change in Control Table[(1)]

The following table presents the potential payments to which our Named Executive Officers would have been entitled to assuming a termination or change in control had occurred as of December 31, 2017.

Name	Benefit	Termination Without Cause or for Good Reason [(2)]	Upon Change in Control [(3)]	Upon Death [(4)]	Upon Disability [(4)]
Sean P. Downes	Base Salary	$ 2,217,500	$ 8,870,000		
	Annual Incentive Award	$ 7,361,883	$ 14,066,048	$ 7,361,883	$ 7,361,883

	Equity Compensation[5]	$ 6,501,710	$ 10,017,202
	Other Post-Employment Obligations	[6]	
Jon W. Springer[7]	Base Salary		
	Annual Incentive Award		
	Equity Compensation[5]		
	Other Post-Employment Obligations		
Stephen J. Donaghy[7]	Base Salary		
	Annual Incentive Award		
	Equity Compensation[5]		
Frank C. Wilcox[8]	Base Salary	$ 825,000	
Kimberly D. Cooper			

(1) If the payments and benefits to a Named Executive Officer under his respective agreement or another plan, arrangement or agreement would subject the Named Executive Officer to the excise tax imposed by Section 4999 of the Code, then such payments will be reduced by the minimum amount necessary to avoid such excise tax, if such reduction would result in the Named Executive Officer receiving a higher net after-tax amount. The amounts reflected in this table do not reflect the application of any reduction in compensation or benefits pursuant to the terms of the 2016 and 2018 Employment Agreements.

Table of Contents

EXECUTIVE COMPENSATION CONTINUED

(2) The amounts in this column assume a termination of employment without cause or for good reason on December 31, 2017, and no prior change in control. For Mr. Downes, these amounts represent: (i) a lump-sum cash payment equal to his base salary for a period equal to the remaining term of his 2016 employment agreement, which expires December 31, 2018, (ii) his pro rata portion of his 2017 annual incentive award, and (iii) equity compensation (stock options and PSUs) that would have vested had he been continuously employed by the Company through the end of the one-year period following the termination date. For Mr. Wilcox, this amount represents a lump-sum cash payment equal to his base salary for a period equal to the remaining term of his 2018 employment agreement, which expires December 31, 2019.

(3) The amounts in this column assume a termination of employment without cause or for good reason on December 31, 2017, within 24 months after a change in control. With respect to Mr. Downes, the amounts represent (i) four times his then-annual rate of base salary, (ii) two times his 2016 annual incentive award, and (iii) all equity compensation (stock options and PSUs) held by Mr. Downes would immediately vest and become exercisable.

(4) The amounts in this column represent Mr. Downes s pro rata portion of his 2017 annual incentive award.

(5) Includes the intrinsic value as of December 31, 2017 (that is, the value based upon the last reported sales price of our common stock on the NYSE on December 29, 2017, $27.35, and in the case of options, minus the exercise price) of equity awards that would become exercisable or vested in the event of termination of employment and change-in-control assuming the awards are not assumed or substituted. For all outstanding equity awards owned by our Named Executive Officers as of December 31, 2017, see the 2017 Outstanding Equity Awards at Year-End table above.

(6) Mr. Downes is also entitled to up to 12 months of COBRA payments in the event of termination without cause or for good reason.

(7) As of December 31, 2017, the 2016 Employment Agreements for Messrs. Springer and Donaghy were no longer in effect, and if, in fact, Messrs. Springer and Donaghy had actually been terminated on December 31, 2017, they would not have been legally entitled to receive any termination or change in control benefits. Accordingly, there are no amounts presented in this table for either of them. However, even though Messrs. Springer s and Donaghy s 2018 Employment Agreements are not retroactive to 2017, for informational purposes, the table below shows the termination and change in control benefits that each of them would have received if their 2018 Employment Agreements were in effect as of December 31, 2017.

(8) As Mr. Wilcox s 2018 Employment Agreement has retroactive effect and took effect as of October 1, 2017, the amounts shown here reflect his termination benefits under his 2018 Employment Agreement.

The following table presents the potential payments to Messrs. Springer and Donaghy if their 2018 Employment Agreements were in effect as of December 31, 2017.

Name	Benefit	Termination Without Cause or for Good Reason [(a)]	Upon Change in Control [(b)]	Upon Death [(c)]	Upon Disability [(c)]
Jon W. Springer	Base Salary	$ 1,340,625	$ 5,362,500		
	Annual Incentive Award	$ 4,601,177	$ 8,791,280	$ 4,601,177	$ 4,601,177
	Equity Compensation[(d)]	$ 1,687,900	$ 3,062,754		
	Other Post-Employment Obligations	[(e)]			
Stephen J. Donaghy	Base Salary	$ 1,608,750	$ 1,608,750		
	Annual Incentive Award	$ 1,600,381			
	Equity Compensation[(d)]		$ 1,289,340		

(a)

The amounts in this column assume a termination of employment without cause or for good reason on December 31, 2017, and no prior change in control. With respect to Mr. Springer, these amounts represent: (i) a lump-sum cash payment equal to his base salary for a period equal to the remaining term of his 2018 employment agreement, which expires December 31, 2018, (ii) his pro rata portion of his 2017 annual incentive award, and (iii) equity compensation (stock options and PSUs) that would have vested had he been continuously employed by the Company through the end of the one-year period following the termination date. With respect to Mr. Donaghy, these amounts represent (i) a lump-sum cash payment equal to his base salary for a period equal to the remaining term of his 2018 employment agreement, which expires December 31, 2019, and (ii) his pro rata portion of his 2017 annual incentive award.

(b) The amounts in this column assume a termination of employment without cause or for good reason on December 31, 2017, within 24 months after a change in control. With respect to Mr. Springer, the amounts represent (i) four times his then-annual rate of base salary, (ii) two times his 2016 annual incentive award, and (iii) all equity compensation (stock options and PSUs) held by Mr. Springer would immediately vest and become exercisable. With respect to Mr. Donaghy, the amounts represent (i) a lump-sum cash payment equal to his base salary for a period equal to the remaining term of his 2018 employment agreement, which expires December 31, 2019, and (ii) all equity compensation (stock options and PSUs) held by Mr. Donaghy would immediately vest and become exercisable.

(c) The amounts in this column represent Mr. Springer s pro rata portion of his 2017 annual incentive award.

(d) Includes the intrinsic value as of December 31, 2017 (that is, the value based upon the last reported sales price of our common stock on the NYSE on December 29, 2017, $27.35, and in the case of options, minus the exercise price) of equity awards that would become exercisable or vested in the event of termination of employment and change-in-control assuming the awards are not assumed or substituted. For all outstanding equity awards owned by our Named Executive Officers as of December 31, 2017, see the 2017 Outstanding Equity Awards at Year-End table above.

(e) Mr. Springer is also entitled to up to 12 months of COBRA payments in the event of termination without cause or for good reason.

Table of Contents

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

THE COMPENSATION COMMITTEE

Michael A. Pietrangelo, Chair

Richard D. Peterson

Joel M. Wilentz, M.D.

Equity Compensation Plan Information

The following table sets forth certain information with respect to all of our equity compensation plans in effect as of the year ended December 31, 2017.

Plan Category	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	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)
Equity compensation plans approved by security holders [(1)]	1,325,024	$ 18.62	2,064,493
Equity compensation plans not approved by security holders			
Total	1,325,024	$ 18.62	2,064,493

(1) Plans previously approved by the shareholders include the Omnibus Plan.

CEO Pay Ratio

For 2017:

- the median of the annual total compensation of all employees of our company (other than our CEO) was $74,179; and
- the annual total compensation of our CEO, as reported in the Summary Compensation Table included in this Proxy Statement, was $19,252,897.

Based on this information, for 2017, the ratio of the annual total compensation of Mr. Downes, our Chief Executive Officer, to the median of the annual total compensation of all employees, calculated in a manner consistent with Item 402(u) of Regulation S-K, was 260 to 1.

To identify the median employee, we reviewed our employee population as of December 31, 2017 and compensation for the period of January through December 31, 2017 as reported to the Internal Revenue Service on Form W-2 in Box 1, which we determined reasonably reflects the compensation of our employees. Once we identified our median employee, we combined all of the elements of such employee s compensation for the full 2017 year in accordance with the requirements of Item 402 of Regulation S-K.

SEC rules for identifying the median employee and calculating the pay ratio allow companies to use various methodologies and assumptions. As a result, the pay ratio reported by us may not be comparable to the pay ratio reported by other companies.

ITEM 2: ADVISORY VOTE TO APPROVE THE COMPENSATION PAID TO THE COMPANY S NAMED EXECUTIVE OFFICERS

In accordance with Section 14A of the Exchange Act, we are asking shareholders to approve the compensation paid to our Named Executive Officers, as disclosed in this Proxy Statement on pages 14-24 (the Say on Pay Vote). Although the voting results are not binding, we value continuing and constructive feedback from our shareholders on compensation and other important matters, and the Compensation Committee will consider the voting results when evaluating our executive compensation program.

We believe that our executive compensation program aligns the interests of the Company s executives and other key employees with

those of the Company and its shareholders. The program is intended to attract, retain and motivate high caliber executive talent to enable the Company to maximize operational efficiency and long-term profitability.

We ask for your advisory approval of the following resolution:

RESOLVED, that the shareholders hereby approve, on an advisory basis, the compensation paid to Universal Insurance Holding, Inc. s Named Executive Officers, as described in this Proxy Statement on pages 14-24.

THE BOARD RECOMMENDS A VOTE ***FOR*** APPROVAL OF THE COMPENSATION PAID TO THE COMPANY S NAMED EXECUTIVE OFFICERS, AS DISCLOSED IN THIS PROXY STATEMENT.

Table of Contents

AUDIT MATTERS

Independent Auditor

The Audit Committee retained Plante & Moran, PLLC (Plante & Moran) to audit our consolidated and combined financial statements for 2017. In addition, the Audit Committee retained Plante & Moran to provide tax services in 2017. We understand the need for Plante & Moran to maintain objectivity and independence in its audit of our

financial statements. To minimize relationships that could appear to impair the objectivity of Plante & Moran, our Audit Committee has restricted the non-audit services that Plante & Moran may provide to us to tax services.

Policy on Audit Committee Preapproval of Audit and Permissible Non-Audit Services

All audit and non-audit services must be preapproved by the Audit Committee. In 2017, the Audit Committee approved Plante & Moran s provision of tax services, based on its conclusion that the provision of

such services was compatible with the maintenance of that firm s independence in the conduct of its auditing functions.

Accounting Fees and Services

The following table presents fees paid for the audit of our annual financial statements and all other professional services rendered by Plante & Moran, PLLC for the years ended December 31, 2017 and 2016.

	For the Years Ended December 31,	
	2017	2016
Audit fees	$ 754,750	$ 732,000
Audit-related fees	$ 7,670	$ 6,485
Tax fees	$ 86,925	$ 72,250

All other fees		
Total fees	$ 849,345	$ 810,735

In the table at the left, in accordance with SEC rules, Audit fees are fees that we paid to Plante & Moran for (i) the audit of the Company s annual financial statements included in the Annual Report on Form 10-K for fiscal year ended December 31, 2017 and review of financial statements included in the Quarterly Reports on Form 10-Q for the first, second and third quarters of 2017, and (ii) services that are normally provided by the auditor in connection with statutory and regulatory filings or engagements. Tax fees are fees for tax compliance, tax advice and tax planning.

ITEM 3: RATIFICATION OF SELECTION OF PLANTE & MORAN PLLC AS INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM OF THE COMPANY FOR 2018

We are asking our shareholders to ratify the selection of Plante & Moran as our independent registered public accounting firm for 2018. The Audit Committee has approved the selection of Plante & Moran as our independent registered public accounting firm for 2018, and Plante & Moran is currently our independent registered public accounting firm.

Although the Company is not required to seek shareholder approval of this appointment, the Board believes that doing so is consistent

with good corporate governance practices. If the selection is not ratified, the Audit Committee will explore the reasons for shareholder rejection and whether it is appropriate to select another independent auditor.

Representatives of Plante & Moran are expected to be available at the annual meeting, by telephone, to respond to appropriate questions, and will have the opportunity to make a statement if they so choose.

THE BOARD RECOMMENDS A VOTE ***FOR*** THE RATIFICATION OF THE APPOINTMENT OF PLANTE & MORAN, PLLC AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE FISCAL YEAR ENDING DECEMBER 31, 2018.

Audit Committee Report

The Audit Committee reviews and makes recommendations to the Board concerning the reliability and integrity of the Company s financial statements and the adequacy of its system of internal controls and processes to assure compliance with the Company s policies and procedures, Code of Conduct and applicable laws and regulations. The Audit Committee annually recommends the Company s independent auditor for appointment by the Board and ratification by the shareholders and evaluates the independence, qualifications and performance of the Company s independent auditor. The Audit Committee discusses with management the Company s policies regarding risk assessment and risk management, evaluation of the Company s major financial risk exposures and the steps management has taken to monitor and manage such exposures within the Company s risk tolerance. The Audit Committee oversees the Company s internal audit function. It establishes procedures for and oversees receipt, retention and treatment of complaints received by the Company regarding accounting, internal control or auditing matters and the confidential, anonymous submission by the Company s employees of concerns regarding questionable accounting or auditing matters.

This report of the Audit Committee is with respect to the Company s audited financial statements for the fiscal year ended December 31, 2017, which include the balance sheets of the Company as of December 31, 2017 and 2016, and the related statements of income, shareholders equity and cash flows for the years ended December 31, 2017, 2016 and 2015 and the notes thereto (collectively, Audited Financial Statements).

The Audit Committee of the Board is comprised of the three directors named below. Each member of the Audit Committee meets the independence requirements under the applicable rules of the SEC and NYSE.

The Audit Committee reviewed and discussed the Company s Audited Financial Statements with management. The Audit Committee discussed with Plante & Moran, our independent registered public accounting firm for 2017, the matters required to be discussed by the applicable requirements of the Public Company Accounting Oversight Board (PCAOB) and the SEC, and matters related to the conduct of the audit of the Audited Financial Statements.

The Audit Committee received written disclosures and the letter from Plante & Moran required by the applicable requirements of the PCAOB and discussed with Plante & Moran its independence from the Company.

Based on the review and discussions referred to above, the Audit Committee recommended to the Board that the Company s Audited Financial Statements be included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

THE AUDIT COMMITTEE

Richard D. Peterson, Chair

Darryl L. Lewis

Ozzie A. Schindler

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Our Code of Conduct addresses related party transactions, including transactions between the Company and our directors or executive officers, or their respective family members. Pursuant to the Code of Conduct, directors, officers and employees must notify the Chairman of the Audit Committee and the Chairman of the Board in writing of the existence of any relationship or transaction that may pose an actual or potential conflict of interest. Transactions between the Company and any of our executive officers or directors, and their respective family members, require the approval of a majority of disinterested directors. With respect to all other employees, outside legal counsel, acting independently, or the Board may determine whether a conflict exists. Any waivers of this policy as to an officer or director may only be approved by the Board. There are no family relationships among our current executive officers or directors.

The following discussion sets forth the relationships and transactions known by management to involve the Company or its subsidiaries and our directors or executive officers, or their respective family members, or the beneficial owners of more than 5% of any class of our outstanding stock. In each case, pursuant to the Code of Conduct, these relationships and transactions have been disclosed to the Board and a disinterested majority of the Board has approved the transaction or, in the case of an ongoing relationship that was

presented to the Board, permitted the continuation and renewal of such relationship.

Dennis J. Downes, the father of Sean P. Downes, our Chairman and Chief Executive Officer, became an employee of the Company as of November 30, 2013. As Senior Vice President of Claims, Mr. Downes is entitled to an annual base salary of $250,000 and an annual performance bonus. Mr. Downes received $350,000 in salary and bonus in 2017.

Matthew J. Palmieri is the son of Ralph J. Palmieri, a director of the Company. Matthew Palmieri is the President of Blue Atlantic, a wholly-owned subsidiary of the Company; he joined the Company in June 2006. Mr. Ralph Palmieri was first appointed to the Board in 2014. In 2017, pursuant to an employment agreement with Blue Atlantic, Mr. Matthew Palmieri was entitled to receive an annual base salary of $385,000 and an annual bonus at the discretion of Blue Atlantic. Mr. Palmieri is entitled to participate in benefit plans generally available to Blue Atlantic employees in similar positions and in equity incentive plans available to Blue Atlantic employees, including the Omnibus Plan. Mr. Palmieri is also entitled to receive an automobile allowance and life insurance benefits. In 2017, Mr. Palmieri received $635,000 in salary and bonus.

BENEFICIAL OWNERSHIP

The following tables set forth certain information as of April 16, 2018 relating to the beneficial ownership of our preferred stock and common stock by (i) all persons that we know beneficially own more than 5% of any class of the Company s outstanding stock, (ii) each of our Named Executive Officers and directors and (iii) all of our executive officers and directors as a group. In certain instances,

knowledge of the beneficial ownership of common stock is drawn from statements filed with the SEC pursuant to Section 13(d) or 13(g) of the Exchange Act. Except as otherwise indicated, to our knowledge, each shareholder listed in the tables below has sole voting and investment power with respect to the shares beneficially owned by the shareholder.

Ownership of Series A Preferred Stock

As of April 16, 2018, the following table sets forth information regarding the number and percentage of shares of preferred stock held by the person who is known by the Company to beneficially own the outstanding shares of our Series A preferred stock. This holder is neither a director nor an executive officer.

Name and Address [(1)]	Amount and Nature of Beneficial Ownership	Percent of Class
Phylis R. Meier	9,975	100%

(1) The mailing address of Ms. Meier is c/o Universal Insurance Holdings, Inc., 1110 West Commercial Boulevard, Fort Lauderdale, Florida 33309.

Table of Contents

BENEFICIAL OWNERSHIP CONTINUED

Ownership of Common Stock

As of April 16, 2018, the following table sets forth information regarding the number and percentage of shares of our common stock beneficially owned by our directors and Named Executive Officers individually, our directors and executive officers as a group,

and all persons who are known by the Company to beneficially own or exercise voting or dispositive control more than 5% of our common stock:

Name and Address of Beneficial Owner [1]	Amount and Nature of Beneficial Ownership [2]	Percent of Class [3]
Beneficial Owners of More than 5% of Our Common Stock		
BlackRock, Inc. [4]	4,090,926	11.7%
The Vanguard Group [5]	3,132,359	8.9%
Named Executive Officers and Directors		
Scott P. Callahan [6]	38,536	*
Kimberly D. Cooper [7]	25,000	*
Stephen J. Donaghy	468,607	1.3%
Sean P. Downes [8]	1,840,807	5.2%
Darryl L. Lewis [9]	41,325	*
Ralph J. Palmieri [10]	54,017	*
Richard D. Peterson [11]	50,265	*
Michael A. Pietrangelo [12]	120,763	*
Ozzie A. Schindler [13]	96,000	*
Jon W. Springer [14]	587,124	1.7%
Frank C. Wilcox [15]	121,324	*
Joel M. Wilentz, M.D. [16]	268,623	*
Executive officers and directors as a group (12 people) [17]	3,712,391	10.6%

(1) *Unless otherwise noted, the mailing address of each shareholder is c/o Universal Insurance Holdings, Inc., 1110 West Commercial Boulevard, Fort Lauderdale, Florida 33309.*

(2) *A person is deemed to be the beneficial owner of common stock that can be acquired by such person within 60 days from April 16, 2018, upon the exercise of stock options or conversion of preferred stock. Except as otherwise specified, each beneficial owner s percentage ownership is determined by assuming that stock options and preferred stock that are held by such person (but not those held by any other person) and that are exercisable or convertible within 60 days from April 16, 2018, have been exercised or converted.*

(3) *Asterisks represent percentage holdings below 1.0%.*

(4) *Based solely on a Schedule 13G/A filed with the SEC on January 19, 2018 by BlackRock, Inc. At that time, BlackRock, Inc. reported sole voting power as to 4,029,068 shares and sole dispositive power as to 4,090,926 shares. The address of BlackRock, Inc. is 55 East 52nd Street, New York, NY 10055.*

(5) *Based solely on a Schedule 13G/A filed with the SEC on February 9, 2018 by Vanguard Group Inc. At that time, The Vanguard Group reported sole voting power as to 54,895 shares, sole dispositive power as to 3,078,829 shares and shared dispositive power as to 53,530 shares. The address of Vanguard Group, Inc. is 100 Vanguard Blvd, Malvern, PA 19355.*

(6) *Includes options held by Mr. Callahan to purchase an aggregate of 30,000 shares of common stock.*

(7) *Consists of options held by Ms. Cooper to purchase an aggregate of 25,000 shares of common stock.*

(8) *Includes options held by Mr. Downes to purchase an aggregate of 291,666 shares of common stock.*

(9) *Includes options held by Mr. Lewis to purchase an aggregate of 40,000 shares of common stock.*

(10) *Includes options held by Mr. Palmieri to purchase an aggregate of 50,000 shares of common stock.*

(11) *Includes options held by Mr. Peterson to purchase an aggregate of 49,200 shares of common stock.*

(12) *Includes options held by Mr. Pietrangelo to purchase an aggregate of 40,000 shares of common stock.*

(13) *Includes options held by Mr. Schindler to purchase an aggregate of 40,000 shares of common stock.*

(14) *Includes options held by Mr. Springer to purchase an aggregate of 71,473 shares of common stock.*

(15) *Includes options held by Mr. Wilcox to purchase an aggregate of 25,000 shares of common stock.*

(16) *Includes options held by Dr. Wilentz to purchase an aggregate of 40,000 shares of common stock.*

(17) *See footnotes (2) and (6) (16) above.*

INFORMATION CONCERNING OUR ANNUAL MEETING, VOTING AND SHAREHOLDER PROPOSALS FOR THE 2018 ANNUAL MEETING

General Information

A proxy is your legal designation of another person to vote the stock you own. We have designated Frank C. Wilcox, our Chief Financial Officer, as proxy for our shareholders at the meeting.

Attendance at the Meeting

You need to bring a photo ID to gain admission to the meeting. Only shareholders and invited guests may attend the meeting. If you are a beneficial owner, you will need to bring your most recent brokerage statement with you to the meeting. We will use your brokerage statement to verify your ownership of shares and admit you to the meeting; however, you will not be able to vote your shares at the meeting without a legal proxy, as described under How to Vote in this section of the Proxy Statement.

How to Vote

If your shares are registered directly in your name with our registrar and transfer agent, Continental Stock Transfer & Trust Company, you are considered a shareholder of record with respect to those shares. If your shares are held in a brokerage account or with a bank, you are considered the beneficial owner of those shares.

Shareholders of Record. Shareholders of record can vote in any one of four ways:

Via the internet: Go to the website listed on your proxy card or on the Notice of Internet Availability of Proxy Materials to vote via the internet. You will need to follow the instructions on the website.

By telephone: Call the telephone number on your proxy card to vote by telephone. You will need to follow the instructions given by the voice prompts.

By mail: Sign, date and return the proxy card you received from the Company in the enclosed postage-paid envelope.

In person: Attend the meeting in person. See *Attendance at the Meeting* in this section of the Proxy Statement.

Beneficial Owners. If your shares are held beneficially in the name of a bank, broker or other holder of record (sometimes referred to as holding shares in street name), you will receive instructions from the holder of record, in the form of a Voting Instruction Form that you must follow in order for your shares to be voted. If you wish to vote in person at the meeting, you must obtain a legal proxy from the bank, broker or other holder of record that holds your shares, and bring it, or other evidence of stock ownership, with you to the meeting. See *Attendance at the Meeting* in this section of the Proxy Statement.

Shareholders Entitled to Vote

The record date for the meeting is April 16, 2018. Only owners of record at the close of business on the record date are entitled to receive notice of the meeting and to vote at the meeting and any adjournments of the meeting.

The securities to be voted at the meeting consist of shares of our common stock, with each share entitling its record owner to one vote, and shares of our Series A preferred stock, with each share entitling its record owner to one vote.

The table below sets forth the number and classes of Company stock entitled to vote at the meeting.

Class of Voting Stock	Number of Record Holders as of the Record Date	Number of Shares Outstanding and Entitled to Vote as of the Record Date
Common Stock	37	35,063,424
Series A Preferred Stock	1	9,975

Quorum Requirements

The presence, in person or by proxy, of at least a majority of the total number of outstanding shares of our common stock and preferred stock, taken together, is necessary to constitute a quorum at the meeting. If a quorum is not present at the meeting, a majority of the shares so represented may vote to adjourn the meeting without further notice.

Revoking a Proxy

After you have submitted a proxy, you may revoke such proxy prior to the completion of voting at the meeting by the following means:

- sending written notice to Stephen J. Donaghy, Secretary, Universal Insurance Holdings, Inc., 1110 West Commercial Boulevard, Fort Lauderdale, Florida 33309;
- delivering a later-dated proxy; or
- appearing at the meeting and giving the Secretary notice of your intention to vote in person (unless you are a beneficial owner without a legal proxy, as described under How to Vote in this section of the Proxy Statement).

Tabulation of Voting Results

An independent inspector will certify the results of the vote regarding the election of directors.

Table of Contents

Voting Options for Each Item at the Annual Meeting

With respect to Item 1, the Election of Directors, you may vote FOR or AGAINST each nominee or you may ABSTAIN from voting.

With respect to Items 2 and 3, you may vote FOR or AGAINST such items or you may ABSTAIN from voting.

Votes Required to Pass Each Item

Each matter submitted to the shareholders requires the affirmative vote of a majority of the votes cast at the 2018 Annual Meeting.

Board Voting Recommendations for Each Item

The Board recommends that you vote your shares:

- FOR the election of each of the director nominees to the Board (Item 1)
- FOR the approval of the compensation paid to our Named Executive Officers (Item 2)
- FOR the ratification of the appointment of Plante & Moran as our independent registered public accounting firm for the 2018 fiscal year (Item 3)

If you sign and return your proxy card, but do not give voting instructions, the shares represented by that proxy will be voted as recommended by the Board above.

Abstentions and Broker Non-Votes

Abstentions and broker non-votes are considered as shares represented for purposes of determining whether a quorum is present.

If you submit a proxy but select ABSTAIN from voting on a proposal, your shares will be represented at the meeting but will not have any impact on the voting results of a proposal. Abstentions are not considered votes cast on each proposal.

A broker non-vote occurs when a nominee holding shares for a beneficial owner (i.e., a broker) does not vote on a particular item because the nominee does not have discretionary voting power for that particular matter and has not received instructions from the beneficial owner. Under NYSE rules, ratification of the appointment of Plante & Moran as our independent registered public accounting firm for the 2018 fiscal year (Item 3) is considered a routine matter on which brokers will be permitted to vote in their discretion, even if the beneficial owners do not provide voting instructions. However, each of the other items is not considered to be a routine matter under NYSE rules, and brokers will not be permitted to vote on Items 1 or 2 if the beneficial owners fail to provide voting instructions. Broker non-votes will not have any impact on the voting results of a proposal.

Costs for Proxy Solicitations

We will bear the cost of soliciting proxies. Officers and regular employees of the Company may solicit proxies by a further mailing or

personal conversations or via e-mail, telephone or facsimile, provided that they do not receive compensation for doing so.

Cameras and Recording Equipment Prohibited

Please note that cameras and sound or video recording equipment will not be permitted in the meeting room.

Householding

As permitted by the federal securities laws, only one copy of this Proxy Statement, the Annual Report and the Notice of 2018 Annual Meeting of Shareholders is being delivered to shareholders residing at the same address, unless the shareholders have notified us of their desire to receive multiple copies. This is known as householding. We will promptly deliver, upon oral or written request, a separate copy of these materials to any shareholder residing at an address to which only one copy was mailed. Requests for additional copies for the current year should be directed to Stephen J. Donaghy, Secretary, Universal Insurance Holdings, Inc., 1110 West Commercial Boulevard, Fort Lauderdale, Florida 33309 or (954) 958-1200.

Shareholders of record residing at the same address and currently receiving multiple copies of Proxy Statements may contact our registrar and transfer agent, Continental Stock Transfer & Trust Company, to request that only a single copy of the Proxy Statement be mailed in the future. Please contact the transfer agent by phone at (212) 509-4000 or by mail at 17 Battery Place, New York, NY 10004. Beneficial owners, as described above, should contact their broker or bank.

Where You Can Find More Information/Availability of Proxy Materials

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read any reports, statements or other information we file with the SEC at the SEC s website at www.sec.gov.

THE NOTICE OF 2018 ANNUAL MEETING OF SHAREHOLDERS, THIS PROXY STATEMENT AND OUR ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017, ARE FIRST EXPECTED TO BE MADE AVAILABLE AT HTTP://WWW.PROXYVOTE.COM ON APRIL 27, 2018.

Shareholder Proposal Deadline for 2019 Annual Meeting of Shareholders

Proposals that shareholders intend to present at the 2019 Annual Meeting of Shareholders and be included the proxy materials for such meeting pursuant to Rule 14a-8 under the Exchange Act must be received by the Company no later than December 28, 2018.

In addition, a shareholder may wish to have a proposal presented at the 2019 Annual Meeting of Shareholders (including director nominations), but not to have such proposal included in our proxy materials relating to that meeting. Our bylaws establish an advance notice procedure for shareholder proposals to be brought before an annual meeting of shareholders. Pursuant to our bylaws, a shareholder proposal or nomination intended to be brought before the 2019 Annual Meeting of Shareholders must be delivered to the Company between March 15, 2019 and April 14, 2019.

All proposals or nominations a shareholder wishes to submit at the meeting should be directed to Stephen J. Donaghy, Secretary, Universal Insurance Holdings, Inc., 1110 West Commercial Boulevard, Fort Lauderdale, Florida 33309

Table of Contents

OTHER MATTERS

The Company knows of no business that will be presented for action at the annual meeting other than those matters referred to herein. If other matters do come before the annual meeting, the persons named as proxies will act and vote according to their best judgment on behalf of the shareholders they represent.

BY ORDER OF THE BOARD OF DIRECTORS

Stephen J. Donaghy, Secretary

April 27, 2018

Table of Contents

The Board of Directors recommends you vote FOR each of the following:

1. Election of ten directors for an annual term ending in 2019.

Nominees

		For	Against	Abstain	**The Board of Directors recommends you vote FOR Item 2.**	For	Against	Abstain
1A	Scott P. Callahan				**2** Advisory vote to approve the compensation paid to the Company s named executive officers.			
1B	Kimberly D. Cooper				**The Board of Directors recommends you vote FOR Item 3.**	**For**	**Against**	**Abstain**
1C	Sean P. Downes				**3**			

1D Darryl L. Lewis

1E Ralph J. Palmieri

1F Richard D. Peterson

1G Michael A. Pietrangelo

1H Ozzie A. Schindler

1I Jon W. Springer

1J Joel M. Wilentz, M.D.

Ratification of appointment of Plante & Moran, PLLC as the independent registe accounting firm of the Company for the fiscal year ending December 31, 2018.

NOTE: Such other business as may properly come before the meeting or any adjournment thereof.

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign

in full corporate or partnership name by authorized officer.

Table of Contents

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The Form 10-K and Notice & Proxy Statement are available at www.proxyvote.com

UNIVERSAL INSURANCE HOLDINGS, INC.

Annual Meeting of Shareholders on June 13, 2018

This Proxy is Solicited on Behalf of the Board of Directors

The undersigned hereby appoints Frank C. Wilcox, with full power of substitution, as the lawful proxy of the undersigned and hereby authorizes him to represent and to vote as designated below all shares of common stock and Series A preferred stock of Universal Insurance Holdings, Inc. (Company) that the undersigned would be entitled to vote if personally present at the Annual Meeting of Shareholders of the Company to be held at 9:00 a.m., Eastern Time, on Wednesday, June 13, 2018 at the Biltmore, 1 Lodge Street, Asheville, North Carolina 28803 and at any adjournment thereof. Holders of common stock and Series A preferred stock are entitled to one vote per share.

This proxy, when properly executed, will be voted in the manner directed herein by the undersigned shareholder. **If no direction is given, this proxy will be voted FOR the election of all director nominees and FOR items 2 and 3.**

Whether or not you plan to attend the meeting, you are urged to execute and return this proxy, which may be revoked at any time prior to its use.

(Continued, and to be marked, dated and signed, on the other side)

px;padding-bottom:2px;">
146,798

151,112

1,518

2,437

81

183

148,397

153,732

Consumer - other
122,518

122,894

2,793

3,354

2,346

2,683

127,657

128,931

Total consumer
300,845

308,269

4,816

6,448

2,834

3,384

308,495

318,101

Leasing and other and overdrafts
69,097

70,550

477

1,049

348

107

69,922

71,706

$
3,124,935

$
3,073,867

$
50,464

$
58,594

$
38,366

$
32,227

$
3,213,765

$
3,164,688

% of Total
97.2
%

97.1
%

1.6
%

1.9
%

1.2
%

1.0
%

100.0
%

100.0
%

(1) Includes all accruing loans 31 days to 89 days past due.
(2) Includes all accruing loans 90 days or more past due and all non-accrual loans.

The following table presents non-performing assets:

	March 31, 2012	December 31, 2011
	(in thousands)	
Non-accrual loans	$248,719	$257,761
Accruing loans greater than 90 days past due	35,270	28,767
Total non-performing loans	283,989	286,528

Other real estate owned (OREO)	33,516	30,803
Total non-performing assets	$317,505	$317,331

The following table presents TDRs, by portfolio segment:

	March 31, 2012	December 31, 2011
	(in thousands)	
Real-estate - residential mortgage	$33,800	$32,331
Real-estate - commercial mortgage	28,153	22,425
Real-estate - construction	10,303	7,645
Commercial - industrial, financial and agricultural	4,075	3,581
Consumer	464	193
Total accruing TDRs	76,795	66,175
Non-accrual TDRs (1)	32,411	32,587
Total TDRs	$109,206	$98,762

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

As of March 31, 2012 and December 31, 2011, there were $150,000 and $1.7 million respectively, of commitments to lend additional funds to borrowers whose loans were modified under TDRs.

The following table presents loans modified as TDRs during the three months ended March 31, 2012 and classified as TDRs as of March 31, 2012, by class segment:

	Number of Loans	Recorded Investment
	(dollars in thousands)	
Construction - commercial residential	3	$6,365
Real estate - residential mortgage	13	4,679
Commercial - secured	5	3,040
Real estate - commercial mortgage	4	5,669
Real estate - home equity	2	171
	27	$19,924

The following table presents loans modified as TDRs within the previous 12 months, and classified as TDRs as of March 31, 2012, which had a payment default during the three months ended March 31, 2012, by class segment:

	Number of Loans	Recorded Investment
	(dollars in thousands)	
Construction - commercial residential	3	$7,550
Real estate - commercial mortgage	9	4,088
Real estate - residential mortgage	8	1,714
Commercial - secured	2	115
Real estate - home equity	2	239
	24	$13,706

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

	March 31, 2012							
	31-59 Days Past Due	60-89 Days Past Due	≥ 90 Days Past Due and Accruing	Non-accrual	Total ≥ 90 Days	Total Past Due	Current	Total
	(in thousands)							
Real estate - commercial mortgage	$13,925	$5,796	$5,564	$98,512	$104,076	$123,797	$4,510,631	$4,634,428
Commercial - secured	6,739	4,712	6,202	73,687	79,889	91,340	3,204,305	3,295,645
Commercial - unsecured	499	469	70	2,925	2,995	3,963	218,620	222,583
Total commercial - industrial, financial and agricultural	7,238	5,181	6,272	76,612	82,884	95,303	3,422,925	3,518,228
Real estate - home equity	8,826	2,966	5,167	5,747	10,914	22,706	1,579,174	1,601,880
Real estate - residential mortgage	22,838	9,698	15,274	7,742	23,016	55,552	1,121,395	1,176,947
Construction - commercial residential	2,329	478	—	52,372	52,372	55,179	301,431	356,610
Construction - commercial	—	—	128	6,163	6,291	6,291	228,278	234,569
Construction - other	171	672	82	1,172	1,254	2,097	54,424	56,521
Total real estate - construction	2,500	1,150	210	59,707	59,917	63,567	584,133	647,700
Consumer - direct	377	128	41	366	407	912	31,529	32,441
Consumer - indirect	1,211	307	81	—	81	1,599	146,798	148,397
Consumer - other	1,741	1,052	2,346	—	2,346	5,139	122,518	127,657
Total consumer	3,329	1,487	2,468	366	2,834	7,650	300,845	308,495
Leasing and other and overdrafts	388	89	315	33	348	825	69,097	69,922
	$59,044	$26,367	$35,270	$248,719	$283,989	$369,400	$11,588,200	$11,957,600

	December 31, 2011							
	31-59 Days Past Due	60-89 Days Past Due	≥ 90 Days Past Due and Accruing	Non-accrual	Total ≥ 90 Days	Total Past Due	Current	Total
	(in thousands)							
Real estate - commercial mortgage	$11,167	$14,437	$4,394	$109,412	$113,806	$139,410	$4,463,186	$4,602,596
Commercial - secured	9,284	4,498	4,831	73,048	77,879	91,661	3,301,899	3,393,560
Commercial - unsecured	671	515	409	2,656	3,065	4,251	241,557	245,808
Total commercial - industrial, financial and agricultural	9,955	5,013	5,240	75,704	80,944	95,912	3,543,456	3,639,368
Real estate - home equity	7,439	4,194	5,714	5,493	11,207	22,840	1,601,722	1,624,562
Real estate - residential mortgage	23,877	13,246	8,502	7,834	16,336	53,459	1,043,733	1,097,192
	2,372	4,824	1,656	53,420	55,076	62,272	290,665	352,937

Construction - commercial residential								
Construction - commercial	31	—	128	4,347	4,475	4,506	204,875	209,381
Construction - other	2,341	—	66	1,127	1,193	3,534	49,593	53,127
Total real estate - construction	4,744	4,824	1,850	58,894	60,744	70,312	545,133	615,445
Consumer - direct	455	202	150	368	518	1,175	34,263	35,438
Consumer - indirect	1,997	440	183	—	183	2,620	151,112	153,732
Consumer - other	2,251	1,103	2,683	—	2,683	6,037	122,894	128,931
Total consumer	4,703	1,745	3,016	368	3,384	9,832	308,269	318,101
Leasing and other and overdrafts	925	124	51	56	107	1,156	70,550	71,706
	$62,810	$43,583	$28,767	$257,761	$286,528	$392,921	$11,576,049	$11,968,970

20

NOTE F – Mortgage Servicing Rights

The following table summarizes the changes in mortgage servicing rights (MSRs) for the three months ended March 31, which are included in other assets on the consolidated balance sheets:

	2012	2011
	(in thousands)	
Amortized cost:		
Balance at beginning of period	$34,666	$30,700
Originations of mortgage servicing rights	2,778	2,658
Amortization	(2,185)	(1,298)
Balance at end of period	$35,259	$32,060
Valuation allowance	$(1,550)	$(1,550)
Net MSRs at end of period	$33,709	30,510

MSRs represent the economic value of contractual rights to service mortgage loans that have been sold. Accordingly, actual and expected prepayments of the underlying mortgage loans can impact the value of MSRs.

The Corporation estimates the fair value of its MSRs by discounting the estimated cash flows from servicing income, net of expense, over the expected life of the underlying loans at a discount rate commensurate with the risk associated with these assets. Expected life is based on the contractual terms of the loans, as adjusted for prepayment projections for mortgage-backed securities with rates and terms comparable to the loans underlying the MSRs. No adjustment to the valuation allowance was necessary as of March 31, 2012.

NOTE G – Stock-Based Compensation

The fair value of equity awards granted to employees is recognized as compensation expense over the period during which employees are required to provide service in exchange for such awards. The Corporation grants equity awards to employees, consisting of stock options and restricted stock, under its 2004 Stock Option and Compensation Plan (Employee Option Plan). In addition, employees may purchase stock under the Corporation’s Employee Stock Purchase Plan.

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

The following table presents compensation expense and the related tax benefits for equity awards recognized in the consolidated statements of income for the three months ended March 31:

	2012	2011
	(in thousands)	
Stock-based compensation expense	$713	$547
Tax benefit	(159)	(136)
Stock-based compensation expense, net of tax	$554	$411

Stock option fair values are estimated through the use of the Black-Scholes valuation methodology as of the date of grant. Stock options carry terms of up to ten years. Restricted stock fair values are equal to the average trading price of the Corporation’s stock on the date of grant. Restricted stock awards earn dividends during the vesting period, which are forfeitable if the awards do not vest. Stock options and restricted stock under the Employee Option Plan have historically been granted annually and become fully vested over or after a three year vesting period. Restricted stock awards under the Directors' Plan generally vest one year from the date of grant. Certain events, as defined in the Employee Option Plan and Directors' Plan, result in the acceleration of the vesting of both stock options and restricted stock. As of March 31, 2012, the Employee Option Plan had 12.6 million shares reserved for future grants through

2013. On April 1, 2012, the Corporation granted approximately 471,000 stock options and 312,000 shares of restricted stock under its Employee Option Plan.

As of March 31, 2012, the Directors' Plan had 490,000 shares reserved for future grants through 2021. On May 1, 2012, the

Corporation granted approximately 21,000 shares of restricted stock under its Directors' Plan.

NOTE H – Employee Benefit Plans

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

The Corporation currently provides medical and life insurance benefits under a postretirement benefits plan (Postretirement Plan) to certain retired full-time employees who were employees of the Corporation prior to January 1, 1998. Certain full-time employees may become eligible for these discretionary benefits if they reach retirement age while working for the Corporation.

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

The net periodic benefit cost for the Corporation's Pension Plan, as determined by consulting actuaries, consisted of the following components for the three months ended March 31:

	2012	2011
	(in thousands)	
Service cost (1)	$39	$15
Interest cost	806	853
Expected return on plan assets	(808)	(837)
Net amortization and deferral	420	72
Net periodic benefit cost	$457	$103

(1) The Pension Plan service cost recorded for the three months ended March 31, 2012 and 2011, respectively, was related to administrative costs associated with the plan and not due to the accrual of additional participant benefits.

The net periodic benefit cost for the Corporation's Postretirement Plan, as determined by consulting actuaries, consisted of the following components for the three months ended March 31:

	2012	2011
	(in thousands)	
Service cost	$53	$51
Interest cost	87	107
Expected return on plan assets	(1)	(1)
Net accretion and deferral	(91)	(91)
Net periodic benefit cost	$48	$66

NOTE I – Derivative Financial Instruments

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

held for sale and servicing income, net of MSR amortization.

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

	March 31, 2012		December 31, 2011	
	Notional Amount	Asset (Liability) Fair Value	Notional Amount	Asset (Liability) Fair Value
	(in thousands)			
Interest Rate Locks with Customers:				
Positive fair values	$348,992	$4,717	$181,583	$3,888
Negative fair values	3,968	(30)	1,593	(10)
Net interest rate locks with customers		4,687		3,878
Forward Commitments:				
Positive fair values	307,865	733	3,178	13
Negative fair values	46,956	(98)	173,208	(2,724)
Net forward commitments		635		(2,711)
Net derivative fair value asset		$5,322		$1,167

The following table presents a summary of the fair value gains and losses on derivative financial instruments for the three months ended March 31:

	2012	2011
	(in thousands)	
Interest rate locks with customers	$809	$1,920
Forward commitments	3,346	(9,285)
Fair value gains (losses) on derivative financial instruments	$4,155	$(7,365)

NOTE J – Commitments and Contingencies

Commitments

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers.

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

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

	March 31, 2012	December 31, 2011
	(in thousands)	
Commitments to extend credit	$3,900,856	$3,803,532
Standby letters of credit	432,225	444,019
Commercial letters of credit	28,795	31,557

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

Residential Lending

Residential mortgages are originated and sold by the Corporation through Fulton Mortgage Company, which operates as a division of each of the Corporation's subsidiary banks. Residential mortgage loans sold are primarily conforming, prime loans sold to government sponsored agencies such as the Federal National Mortgage Association (Fannie Mae). From 2004 to 2007, the Corporation's former Resource Bank subsidiary operated a national wholesale mortgage lending operation which sold non-prime loans to private investors.

The Corporation provides customary representations and warranties to investors that specify, among other things, that the loans have been underwritten to the standards established by the investor. The Corporation may be required to

repurchase a loan or

23

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reimburse the investor for a credit loss incurred on a loan if it is determined that the representations and warranties have not been met. This generally results from an underwriting or documentation deficiency. As of March 31, 2012 and 2011, total outstanding repurchase requests totaled approximately $3.2 million and $2.4 million, respectively.
From 2000 to 2011, the Corporation sold loans to the FHLB under its Mortgage Partnership Finance Program (MPF Program). No loans have been sold under this program in 2012. The Corporation provided a "credit enhancement" for residential mortgage loans sold under the MPF Program whereby it would assume credit losses in excess of a defined "First Loss Account" (FLA) balance, up to specified amounts. The FLA is funded by the FHLB based on a percentage of the outstanding principal balance of loans sold. As of March 31, 2012, the unpaid principal balance of loans sold under the MPF Program was approximately $279 million. During the first quarter of 2012, credit losses under the MPF Program were projected to exceed the FLA, and, as a result, the Corporation recorded a $2.6 million reserve for expected credit losses related to loans sold under the MPF Program. This reserve was calculated based on delinquency status and estimated loss rates established through the Corporation's existing allowance for loan loss methodology.
As of March 31, 2012 and December 31, 2011, the reserve for losses on residential mortgage loans sold was $4.0 million and $1.5 million, respectively, including both reserves for credit losses under the MPF Program and reserves for representation and warranty exposures. Management believes that the reserves recorded as of March 31, 2012 are adequate. However, declines in collateral values, the identification of additional loans to be repurchased, or a deterioration of the FHLB portfolio's credit quality could necessitate additional reserves in the future.

Other Contingencies

The Corporation and its subsidiaries are involved in various legal proceedings in the ordinary course of the business of the Corporation. The Corporation 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. 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 are not expected to have a material adverse effect on the financial position, the operating results and/or the liquidity of the Corporation. However, litigation is often unpredictable and the actual results of litigation cannot be determined with certainty.

NOTE K – Fair Value Option

FASB ASC Subtopic 825-10 permits entities to measure many financial instruments and certain other items at fair value and requires certain disclosures for amounts for which the fair value option is applied. The Corporation has elected to measure mortgage loans held for sale at fair value to more accurately reflect the financial results of its mortgage banking activities in its consolidated financial statements. Derivative financial instruments related to these activities are also recorded at fair value, as noted within Note I, "Derivative Financial Instruments." The Corporation determines fair value for its mortgage loans held for sale based on the price that secondary market investors would pay for loans with similar characteristics, including interest rate and term, as of the date fair value is measured. Changes in fair value during the period are recorded as components of mortgage banking income on the consolidated statements of income. Interest income earned on mortgage loans held for sale is recorded within interest income on the consolidated statements of income.
The following table presents a summary of the Corporation’s mortgage loans held for sale:

	March 31, 2012	December 31, 2011
	(in thousands)	
Cost	$68,569	$45,324
Fair value	70,128	47,009

During the three months ended March 31, 2012, the Corporation recorded losses related to changes in fair values of mortgage loans held for sale of $126,000, compared to gains of $1.2 million for the three months ended March 31, 2011.

NOTE L – Fair Value Measurements

FASB ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into the following three categories (from highest to lowest priority):

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

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

In May 2011, the FASB issued ASC Update 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." ASC Update 2011-04 amends fair value measurement and disclosure requirements in U.S. GAAP for the purpose of improving the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and International Financial Reporting Standards (IFRS). Among the amendments in ASC Update 2011-04 are expanded disclosure requirements that require companies to quantitatively disclose inputs used in recurring Level 3 fair value measurements and to disclose the sensitivity of fair value measurement to changes in unobservable inputs. Effective March 31, 2012, the Corporation adopted the provisions of ASC Update 2011-04 and, as such, has included the required disclosures related to Level 3 fair value measurements below.
Following is a summary of the Corporation's assets and liabilities measured at fair value on a recurring basis and reported on the consolidated balance sheets:

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Mortgage loans held for sale	$—	$70,128	$—	$70,128
Available for sale investment securities:				
Equity securities	33,430	—	—	33,430
U.S. Government securities	—	330	—	330
U.S. Government sponsored agency securities	—	4,050	—	4,050
State and municipal securities	—	310,632	—	310,632
Corporate debt securities	—	118,158	9,422	127,580
Collateralized mortgage obligations	—	1,096,585	—	1,096,585
Mortgage-backed securities	—	1,206,626	—	1,206,626
Auction rate securities	—	—	223,877	223,877
Total available for sale investments	33,430	2,736,381	233,299	3,003,110
Other financial assets	14,382	5,450	—	19,832
Total assets	$47,812	$2,811,959	$233,299	$3,093,070
Other financial liabilities	$14,382	$128	$—	$14,510

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Mortgage loans held for sale	$—	$47,009	$—	$47,009
Available for sale investment securities:				
Equity securities	34,586	—	—	34,586
U.S. Government securities	—	334	—	334
U.S. Government sponsored agency securities	—	4,073	—	4,073
State and municipal securities	—	322,018	—	322,018
Corporate debt securities	—	114,017	9,289	123,306
Collateralized mortgage obligations	—	1,001,209	—	1,001,209
Mortgage-backed securities	—	880,097	—	880,097
Auction rate securities	—	—	225,211	225,211
Total available for sale investments	34,586	2,321,748	234,500	2,590,834
Other financial assets	13,130	3,901	—	17,031
Total assets	$47,716	$2,372,658	$234,500	$2,654,874
Other financial liabilities	$13,130	$2,734	$—	$15,864

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

- Mortgage loans held for sale – This category consists of mortgage loans held for sale that the Corporation has elected to measure at fair value. Fair values as of March 31, 2012 and December 31, 2011 were measured as the price that secondary market investors were offering for loans with similar characteristics.

- Available for sale investment securities – Included within this asset category are both equity and debt securities. Level 2 available for sale debt securities are valued by a third-party pricing service commonly used in the banking industry. The pricing service uses evaluated pricing models that vary based on asset class and incorporate available market information including quoted prices of investment securities with similar characteristics. Because many fixed income securities do not trade on a daily basis, evaluated pricing models use available information, as applicable, through processes such as benchmark yield curves, benchmarking of like securities, sector groupings, and matrix pricing.

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

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

Equity securities – Equity securities consist of stocks of financial institutions ($26.8 million at March 31, 2012 and $27.9 million at December 31, 2011) and other equity investments ($6.6 million at March 31, 2012 and $6.7 million at December 31, 2011). These Level 1 investments are measured at fair value based on quoted prices for identical securities in active markets. Restricted equity securities issued by the FHLB and Federal Reserve Bank ($79.7 million at March 31, 2012 and $82.5 million at December 31, 2011) have been excluded from the preceding tables.

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

Corporate debt securities – This category consists of subordinated debt issued by financial institutions ($42.4 million at March 31, 2012 and $41.3 million at December 31, 2011), single-issuer trust preferred securities issued by financial institutions ($77.6 million at March 31, 2012 and $74.4 million at December 31, 2011), pooled trust preferred securities issued by financial institutions ($5.1 million at March 31, 2012 and December 31, 2011) and other corporate debt issued by non-financial institutions ($2.5 million at March 31, 2012 and December 31, 2011).

Classified as Level 2 investments are the Corporation's subordinated debt, other corporate debt issued by non-financial institutions and $73.2 million and $70.2 million of single-issuer trust preferred securities held at March 31, 2012 and December 31, 2011, respectively. These corporate debt securities are measured at fair value by a third-party pricing service, as detailed above.

Classified as Level 3 assets are the Corporation's investments in pooled trust preferred securities and certain single-issuer trust preferred securities ($4.4 million at March 31, 2012 and $4.2 million at December 31, 2011). The fair values of these securities were determined based on quotes provided by third-party brokers who determined fair values based predominantly on internal valuation models which were not indicative prices or binding offers. The Corporation's third-party pricing service cannot derive fair values for these securities primarily due to inactive markets for similar investments. Level 3 values are tested by management primarily through trend analysis, by comparing current values to those reported at the end of the preceding calendar quarter, and determining if they are reasonable based on price and spread movements for this asset class.

- Auction rate securities – Due to their illiquidity, ARCs are classified as Level 3 investments and are valued through the use of an expected cash flows model prepared by a third-party valuation expert. The assumptions used in preparing the expected cash flows model include estimates for coupon rates, time to maturity and market rates of return. The most significant unobservable input to the expected cash flows model is an assumed return to market liquidity sometime within the next three years. If the assumed return to market liquidity was lengthened beyond the next three years, this would result in a decrease in the fair value of these ARCs. Management tests Level 3 valuations for ARCs by performing a trend analysis of the market price and discount rate. Changes in the price and discount rates are compared to changes in market data, including bond ratings, parity ratios, balances

26

and delinquency levels. Any inconsistencies are reconciled through discussions with the third-party valuation expert.

- Other financial assets – Included within this asset category are: Level 1 assets, consisting of mutual funds that are held in trust for employee deferred compensation plans and measured at fair value based on quoted prices for identical securities in active markets; and Level 2 assets, representing the fair value of mortgage banking derivatives in the form of interest rate locks and forward commitments with secondary market investors. The fair value of the Corporation's interest rate locks and forward commitments are determined as the amounts that would be required to settle the derivative financial instruments at the balance sheet date. See Note I, "Derivative Financial Instruments," for additional information.
- Other financial liabilities – Included within this category are: Level 1 employee deferred compensation liabilities which represent amounts due to employees under the deferred compensation plans described under the heading "Other financial assets" above and Level 2 mortgage banking derivatives, described under the heading "Other financial assets" above.

The following tables present the changes in the Corporation's assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3) for the three months ended March 31, 2012 and 2011:

	2012		
	Available for Sale Investment Securities		
	Pooled Trust Preferred Securities	Single-issuer Trust Preferred Securities	ARC Investments
	(in thousands)		
Balance at December 31, 2011	$5,109	$4,180	$225,211
Unrealized adjustment to fair value (1)	177	178	(2,164)
Settlements - calls	(223)	—	(317)
(Premium amortization) discount accretion (2)	(1)	2	1,147
Balance at March 31, 2012	$5,062	$4,360	$223,877
	2011		
Balance at December 31, 2010	$4,528	$8,583	$260,679
Transfer from Level 3 to Level 2 (3)	—	(800)	
Realized adjustment to fair value (4)	(994)	—	—
Unrealized adjustment to fair value (1)	1,430	312	77
Settlement - calls	(147)	—	(5,523)
(Premium amortization) discount accretion (2)	(1)	(1)	1,180
Balance at March 31, 2011	$4,816	$8,094	$256,413

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

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

(3) During the three months ended March 31, 2011, one single-issuer trust preferred security with a fair value of $800,000 was reclassified as a Level 2 asset.

(4) Realized adjustments to fair value represent credit related other-than-temporary impairment charges that were recorded as a reduction to investment securities gains on the consolidated statements of income.

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

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Net loans	$—	$—	$204,106	$204,106
Other financial assets	—	—	67,225	67,225
Total assets	$—	$—	$271,331	$271,331

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Net loans	$—	$—	$216,812	$216,812
Other financial assets	—	—	63,919	63,919
Total assets	$—	$—	$280,731	$280,731

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

- Net loans – This category consists of loans that were evaluated for impairment under FASB ASC Section 310-10-35 and have been classified as Level 3 assets. The amount shown is the balance of impaired loans, net of the related allowance for loan losses. See Note E, "Loans and Allowance for Credit Losses," for additional details.
- Other financial assets – This category includes OREO ($33.5 million at March 31, 2012 and $30.8 million at December 31, 2011) and MSRs, net of the MSR valuation reserve ($33.7 million at March 31, 2012 and $33.1 million at December 31, 2011), both classified as Level 3 assets.

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

MSRs are initially recorded at fair value upon the sale of residential mortgage loans, which the Corporation continues to service, to secondary market investors. MSRs are amortized as a reduction to servicing income over the estimated lives of the underlying loans. MSRs are stratified and evaluated for impairment by comparing each stratum's carrying amount to its estimated fair value. Fair values are determined at the end of each quarter through a discounted cash flows valuation. Significant inputs to the valuations include expected net servicing income, the discount rate and the expected life of the underlying loans. Expected life is based on the contractual terms of the loans, as adjusted for prepayment projections for mortgage-backed securities with rates and terms comparable to the loans underlying the MSRs. The annual constant prepayment rates used in the March 31, 2012 discounted cash flows valuation ranged from 11.0% to 18.5%, and were based on the weighted average remaining term of loans in each stratum.

As required by FASB ASC Section 825-10-50, the following table details the book values and estimated fair values of the Corporation's financial instruments as of March 31, 2012 and December 31, 2011. In addition, a general description of the methods and assumptions used to estimate such fair values is also provided.

Fair values of financial instruments are significantly affected by assumptions used, principally the timing of future cash flows and discount rates. Because assumptions are inherently subjective in nature, the estimated fair values cannot be substantiated by comparison to independent market quotes and, in many cases, the estimated fair values could not necessarily be realized in an immediate sale or settlement of the instrument. The aggregate fair value amounts presented do not necessarily represent management's estimate of the underlying value of the Corporation.

	March 31, 2012		December 31, 2011	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
	(in thousands)			
FINANCIAL ASSETS				
Cash and due from banks	$286,875	$286,875	$292,598	$292,598
Interest-bearing deposits with other banks	106,227	106,227	175,336	175,336
Loans held for sale (1)	70,128	70,128	47,009	47,009
Securities held to maturity	6,608	6,626	6,669	6,699
Securities available for sale (1)	3,082,799	3,082,799	2,673,298	2,673,298
Loans, net of unearned income (1)	11,957,600	11,793,170	11,968,970	11,992,586
Accrued interest receivable	51,247	51,247	51,098	51,098
Other financial assets (1)	138,327	138,327	315,952	315,952
FINANCIAL LIABILITIES				
Demand and savings deposits	$8,464,151	$8,464,151	$8,511,789	$8,511,789
Time deposits	3,876,571	3,917,020	4,013,950	4,056,247
Short-term borrowings	964,550	964,550	597,033	597,033
Accrued interest payable	27,674	27,674	25,686	25,686
Other financial liabilities (1)	122,118	122,118	69,816	69,816
Federal Home Loan Bank advances and long-term debt	933,981	876,401	1,040,149	982,010

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

For short-term financial instruments, defined as those with remaining maturities of 90 days or less and excluding those recorded at fair value on the Corporation's consolidated balance sheets, book value was considered to be a reasonable estimate of fair value.

The following instruments are predominantly short-term:

Assets	Liabilities
Cash and due from banks	Demand and savings deposits
Interest bearing deposits	Short-term borrowings
Federal funds sold	Accrued interest payable
Accrued interest receivable	Other financial liabilities

For those financial instruments within the above-listed categories with remaining maturities greater than 90 days, fair values were determined by discounting contractual cash flows using rates which could be earned for assets with similar remaining maturities and, in the case of liabilities, rates at which the liabilities with similar remaining maturities could be issued as of the balance sheet date.

The estimated fair values of securities held to maturity as of March 31, 2012 and December 31, 2011 were based on quoted market prices. The estimated fair value of securities would be categorized within Level 2 assets under FASB ASC Topic 820.

Estimated fair values for loans and time deposits were estimated by discounting future cash flows using the current rates at which similar loans would be made to borrowers for the same remaining maturities. Fair values estimated in this manner do not fully incorporate an exit price approach to fair value, as defined in FASB ASC Topic 820.

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

The fair values of commitments to extend credit and standby letters of credit are estimated to equal their carrying amounts.

NOTE M – Reclassifications

Certain amounts in the 2011 consolidated financial statements and notes have been reclassified to conform to the 2012 presentation.

29

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations
Management’s Discussion and Analysis of Financial Condition and Results of Operations (Management’s Discussion) relates to Fulton Financial Corporation (the Corporation), a financial holding company registered under the Bank Holding Company Act and incorporated under the laws of the Commonwealth of Pennsylvania in 1982, and its wholly owned subsidiaries. Management’s Discussion should be read in conjunction with the consolidated financial statements and notes presented in this report.

FORWARD-LOOKING STATEMENTS
The Corporation has made, and may continue to make, certain forward-looking statements with respect to its financial condition and results of operations. Many factors could affect future financial results including, without limitation: the impact of adverse changes in the economy and real estate markets; increases in non-performing assets which may reduce the level of earning assets and 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; acquisition and growth strategies; market risk; changes or adverse developments in political or regulatory conditions; a disruption in, or abnormal functioning of, credit and other markets, including the lack of or reduced access to markets for mortgages and other asset-backed securities and for commercial paper and other short-term borrowings; changes in the levels of, or methodology for determining, FDIC deposit insurance premiums and assessments; the effect of competition and interest rates on net interest margin and net interest income; investment strategy and other income growth; investment securities gains and losses; declines in the value of securities which may result in charges to earnings; changes in rates of deposit and loan growth or a decline in loans originated; relative balances of risk-sensitive assets to risk-sensitive liabilities; salaries and employee benefits and other expenses; amortization of intangible assets; goodwill impairment; capital and liquidity strategies; and other financial and business matters for future periods. 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. These 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.

RESULTS OF OPERATIONS
Summary Financial Results
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 sales of assets, such as loans, investments or properties. Offsetting these revenue sources are provisions for credit losses, operating expenses and income taxes.

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

	As of or for the Three months ended March 31			
	2012		2011	
Income before income taxes (in thousands)	$51,664		$46,160	
Net income (in thousands)	$38,132		$33,785	
Diluted net income per share (1)	$0.19		$0.17	
Return on average assets	0.94	%	0.85	%
Return on average common equity (2)	7.61	%	7.21	%
Return on average tangible common equity (3)	10.56	%	10.36	%
Net interest margin (4)	3.85	%	3.91	%
Non-performing assets to total assets	1.92	%	2.22	%
Net charge-offs to average loans	0.94	%	1.42	%

(1) Net income divided by diluted weighted average common shares outstanding.
(2) Net income divided by average common shareholders’ equity.
(3) Net income, as adjusted for intangible asset amortization (net of tax), divided by average common shareholders’ equity, net of goodwill and intangible assets.
(4) 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.

The Corporation’s income before income taxes for the first quarter of 2012 increased $5.5 million, or 11.9%, from the same period in 2011. The increase in income before taxes was mainly due to a $10.0 million decrease in the provision for credit losses and a $4.6 million increase in mortgage banking income, partially offset by a $6.1 million increase in salaries and employee benefits and a $3.5 million increase in estimated losses on previously sold residential mortgages.

Asset quality and net interest income continue to be key drivers of financial performance for the Corporation, and the industry in general. During the first quarter of 2012, mortgage banking activities were also significant. The following is a brief overview of each of these areas.

Asset Quality - During the first quarter of 2012, economic conditions improved throughout most of the Corporation's markets. As noted above, the Corporation's provision for credit losses decreased $10.0 million, or 26.3%, to $28.0 million for the first quarter of 2012 as compared to $38.0 million for the first quarter of 2011, due to an improvement in credit quality. Non-performing loans, overall delinquency rates and net loans charged off all improved in the first quarter 2012 in comparison to the same period in 2011.

Mortgage Banking Operations - During the first quarter of 2012, mortgage banking income increased $4.6 million, or 84.0%, with gains on sales of mortgage loans increasing $5.2 million, or 113.0%. The increase in gains on sales of mortgage loans was due to a $287.4 million, or 87.5%, increase in new commitments and a slight increase in pricing spreads. The increase in new commitments was largely due to an increase in refinances in the persistent low interest rate environment.

Estimated losses on residential mortgage loans previously originated and sold by the Corporation increased $3.5 million in comparison to the first quarter of 2011. During the first quarter of 2012, the Corporation recorded a $2.6 million charge due to an exposure in one specific investor program with the Federal Home Loan Bank (FHLB). Under this program, the Corporation provided a “credit enhancement” for residential mortgage loans sold, whereby it was responsible for credit losses above defined levels, up to specified amounts. As of March 31, 2012, the unpaid principal balance of loans sold under the program was approximately $279 million. During the first quarter of 2012, credit losses under the program were projected to exceed defined levels and, as a result, the Corporation recorded a reserve for estimated credit losses as of March 31, 2012. See Note J, “Commitments and Contingencies,” in the Notes to Consolidated Financial Statements for additional details.

Net Interest Income and Net Interest Margin - Net interest income decreased $868,000, or 0.6%, in the first quarter of 2012 in comparison to the first quarter of 2011. This decrease was driven by a 6 basis point, or 1.5%, decrease in the

net interest margin, from 3.91% in the first quarter of 2011 to 3.85% in the first quarter of 2012. In addition, an increase in net premium amortization on mortgage-backed securities due to higher prepayments contributed 2 basis points to the decrease in net interest margin.

The continuing low interest rate environment has resulted in a decline in yields on earning assets, partially offset by the positive impact of lower funding costs as deposits and borrowings mature and are replaced with lower cost funds.

Quarter Ended March 31, 2012 compared to the Quarter Ended March 31, 2011

Net Interest Income

FTE net interest income decreased $600,000, or 0.4%, from $143.5 million in the first quarter of 2011 to $142.9 million in the first quarter of 2012. This decrease was primarily due to a decrease in net interest margin, offset by the effect of an additional day in the first quarter of 2012 as compared to the same period in 2011.

Net interest margin decreased 6 basis points, or 1.5%, from 3.91% for the first quarter of 2011 to 3.85% for the first quarter of 2012. The decrease in net interest margin was due to the net effect of a 29 basis point, or 5.9%, decrease in yields on interest-earning assets and a 25 basis point, or 20.2%, decrease in funding costs.

The following table provides a comparative average balance sheet and net interest income analysis for the first quarter of 2012 as compared to the same period in 2011. Interest income and yields are presented on an FTE basis, using a 35% Federal tax rate and statutory interest expense disallowances. The discussion following this table is based on these FTE amounts. All dollar amounts are in thousands.

	Three months ended March 31					
	2012			2011		
ASSETS	Average Balance	Interest (1)	Yield/ Rate	Average Balance	Interest (1)	Yield/ Rate
Interest-earning assets:						
Loans, net of unearned income (2)	$11,978,972	$147,046	4.94 %	$11,921,442	$151,686	5.15 %
Taxable investment securities (3)	2,402,158	18,661	3.11	2,331,323	21,807	3.75
Tax-exempt investment securities (3)	294,724	4,157	5.64	344,457	4,885	5.67
Equity securities (3)	115,593	780	2.71	132,841	752	2.28
Total investment securities	2,812,475	23,598	3.36	2,808,621	27,444	3.91
Loans held for sale	40,478	431	4.26	45,418	500	4.41
Other interest-earning assets	101,570	53	0.21	66,381	33	0.20
Total interest-earning assets	14,933,495	171,128	4.61 %	14,841,862	179,663	4.90 %
Noninterest-earning assets:						
Cash and due from banks	263,128			260,395		
Premises and equipment	212,567			207,389		
Other assets	1,102,868			1,102,543		
Less: Allowance for loan losses	(266,092)			(282,017)		
Total Assets	$16,245,966			$16,130,172		
LIABILITIES AND EQUITY						
Interest-bearing liabilities:						
Demand deposits	$2,464,452	$1,036	0.17 %	$2,322,098	$1,436	0.25 %
Savings deposits	3,341,035	1,810	0.22	3,282,790	3,358	0.41
Time deposits	3,951,908	13,404	1.36	4,532,528	18,492	1.65
Total interest-bearing deposits	9,757,395	16,250	0.67	10,137,416	23,286	0.93
Short-term borrowings	728,102	281	0.15	622,662	254	0.16
FHLB advances and long-term debt	983,304	11,665	4.76	1,061,523	12,591	4.78
Total interest-bearing liabilities	11,468,801	28,196	0.99 %	11,821,601	36,131	1.24 %
Noninterest-bearing liabilities:						
Demand deposits	2,565,089			2,238,200		
Other	195,465			170,930		
Total Liabilities	14,229,355			14,230,731		
Shareholders’ equity	2,016,611			1,899,441		
Total Liabilities and Shareholders’ Equity	$16,245,966			$16,130,172		
Net interest income/net interest margin (FTE)		142,932	3.85 %		143,532	3.91 %
Tax equivalent adjustment		(4,237)			(3,969)	
Net interest income		$138,695			$139,563	

(1) Includes dividends earned on equity securities.
(2) Includes non-performing loans.
(3) Balances include amortized historical cost for available for sale securities; the related unrealized holding gains (losses) are included in other assets.

The following table summarizes the changes in FTE interest income and interest expense due to changes in average balances (volume) and changes in rates:

	2012 vs. 2011 Increase (decrease) due to change in		
	Volume	Rate	Net
	(in thousands)		
Interest income on:			
Loans, net of unearned income	$620	$(5,260)	$(4,640)
Taxable investment securities	636	(3,782)	(3,146)
Tax-exempt investment securities	(729)	1	(728)
Equity securities	(106)	134	28
Loans held for sale	(56)	(13)	(69)
Other interest-earning assets	19	1	20
Total interest income	$384	$(8,919)	$(8,535)
Interest expense on:			
Demand deposits	$86	$(486)	$(400)
Savings deposits	60	(1,608)	(1,548)
Time deposits	(2,191)	(2,897)	(5,088)
Short-term borrowings	27	—	27
FHLB advances and long-term debt	(1,002)	76	(926)
Total interest expense	$(3,020)	$(4,915)	$(7,935)

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

As summarized above, $8.9 million of the decline in FTE interest income was the result of a 29 basis point, or 5.9%, decrease in average yields, partially offset by a $384,000 increase due to a $91.6 million, or 0.6%, increase in average interest-earning assets.

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

	Three months ended March 31		Increase (decrease)	
	2012	2011	$	%
	(dollars in thousands)			
Real estate – commercial mortgage	$4,617,507	$4,385,072	$232,435	5.3 %
Commercial – industrial, financial and agricultural	3,585,520	3,707,081	(121,561)	(3.3)
Real estate – home equity	1,611,565	1,628,550	(16,985)	(1.0)
Real estate – residential mortgage	1,137,625	1,017,439	120,186	11.8
Real estate – construction	641,574	779,556	(137,982)	(17.7)
Consumer	311,592	341,247	(29,655)	(8.7)
Leasing and other	73,589	62,497	11,092	17.7
Total	$11,978,972	$11,921,442	$57,530	0.5 %

Geographically, the $232.4 million, or 5.3%, increase in commercial mortgages was throughout all of the Corporation’s markets, led by increases in Pennsylvania ($167.8 million, or 7.3%), Maryland ($29.9 million, or 7.6%) and New Jersey ($17.2 million, or 1.4%).

The $120.2 million, or 11.8%, increase in residential mortgages was largely due to the Corporation’s retention in portfolio of certain 10 and 15 year fixed rate mortgages and certain adjustable rate mortgages, primarily during the fourth quarter of 2011.

Geographically, the $138.0 million, or 17.7%, decline in construction loans was in the Corporation’s Maryland ($47.9 million, or 33.5%), Virginia ($44.7 million, or 26.0%), New Jersey ($29.6 million, or 23.4%) and Pennsylvania ($18.4 million, or 5.8%) markets.

Geographically, the $121.6 million, or 3.3%, decrease in commercial loans was in the Corporation's Virginia ($67.5 million, or

34

25.7%), New Jersey ($45.6 million, or 8.2%) and Maryland ($19.9 million, or 5.8%) markets, partially offset by an increase in Pennsylvania ($10.7 million, or 0.4%). The $29.7 million, or 8.7%, decrease in consumer loans was due to a $15.0 million decrease in direct consumer loans and a $14.7 million decrease in the indirect automobile loan portfolio.

The average yield on loans decreased 21 basis points, or 4.1%, from 5.15% in 2011 to 4.94% in 2012. The decrease in average yields on loans was attributable to repayments of higher-yielding loans and declining average rates on fixed. Adjustable rate loans which, unlike floating rate loans, have a lagged repricing effect.

Average investments were essentially unchanged at $2.8 billion. Taxable investment securities increased $70.8 million, or 3.0%, due to favorable conditions during the first quarter of 2012 for the purchase of mortgage-backed securities and collateralized mortgage obligations. The increase in taxable investment securities was offset by a $49.7 million, or 14.4%, decrease in average tax-exempt investment securities due to calls and maturities and a $17.2 million, or 13.0%, decrease in equity securities.

The average yield on investment securities decreased 55 basis points, or 14.1%, from 3.91% in 2011 to 3.36% in 2012, as the reinvestment of cash flows and purchases of taxable investment securities were at yields that were lower than the overall portfolio yield. Also contributing 14 basis points to the decrease in investment yield was an increase in net premium amortization of $1.0 million, or 32.9%, due to higher prepayments on mortgage-backed securities.

Interest expense decreased $7.9 million, or 22.0%, to $28.2 million in the first quarter of 2012 from $36.1 million in the first quarter of 2011. Interest expense decreased $4.9 million due to a 25 basis point, or 20.2%, decrease in the average cost of total interest-bearing liabilities. Interest expense decreased an additional $3.0 million as a result of a $352.8 million, or 3.0%, decline in average interest-bearing liabilities.

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

	Three months ended March 31		Increase (decrease)	
	2012	2011	$	%
	(dollars in thousands)			
Noninterest-bearing demand	$2,565,089	$2,238,200	$326,889	14.6 %
Interest-bearing demand	2,464,452	2,322,098	142,354	6.1
Savings	3,341,035	3,282,790	58,245	1.8
Total demand and savings	8,370,576	7,843,088	527,488	6.7
Time deposits	3,951,908	4,532,528	(580,620)	(12.8)
Total deposits	$12,322,484	$12,375,616	$(53,132)	(0.4)%

Total demand and savings accounts increased $527.5 million, or 6.7%, primarily due to industry trends and increased promotional efforts by the Corporation during the first quarter of 2012 in comparison to the first quarter of 2011. The increase in noninterest-bearing account balances was primarily due to a $263.3 million, or 16.7%, increase in business account balances due, in part, to businesses maintaining higher balances to offset service fees, as well as a migration away from the Corporation's cash management products due to low interest rates. Also contributing to the increase was a $46.0 million, or 8.1%, increase in personal account balances. The $142.4 million, or 6.1%, increase in interest-bearing demand account balances was largely due to a $95.2 million, or 7.1%, increase in personal account balances, a result of customers' migration away from certificates of deposit. Also contributing to the increase was a $34.9 million, or 3.9%, increase in municipal account balances. The $58.2 million, or 1.8%, increase in savings account balances was due to a $96.3 million, or 18.9%, increase in municipal account balances, partially offset by a $20.9 million, or 2.6%, decrease in business account balances and a $17.1 million, or 0.9%, decrease in personal account balances.

The decrease in time deposits was almost entirely due to customer certificates of deposit, which decreased $574.9 million, or 12.7%, with the remaining $5.8 million decrease in brokered certificates of deposit. The decrease in customer certificates of deposit was in accounts with original maturity terms of less than three years ($585.1 million, or 17.4%) and jumbo certificates of deposit ($53.2 million, or 21.9%), partially offset by increases in longer-term certificates of deposit with original maturity terms of greater than three years. As noted above, the decrease in customer certificates of deposit was due to customers migrating funds to interest-bearing demand accounts in the

current low interest rate environment, as well as the Corporation not competing aggressively for time deposit balances, as a result of its favorable overall liquidity position.

The average cost of interest-bearing deposits decreased 26 basis points, or 28.0%, from 0.93% in 2011 to 0.67% in 2012 due to a reduction in rates paid on interest-bearing demand and savings deposits and the repricing of time deposits to lower rates. Since April 1, 2011, excluding early redemptions, approximately $3.4 billion of time deposits matured at a weighted average rate of 1.12%, while approximately $3.1 billion of time deposits were issued at a weighted average rate of 0.61%.

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

	Three months ended March 31		Increase (decrease)	
	2012	2011	$	%
	(dollars in thousands)			
Short-term borrowings:				
Customer repurchase agreements	$200,542	$212,931	$(12,389)	(5.8)%
Customer short-term promissory notes	155,071	190,385	(35,314)	(18.5)
Total short-term customer funding	355,613	403,316	(47,703)	(11.8)
Federal funds purchased and other	372,489	219,346	153,143	69.8
Total short-term borrowings	728,102	622,662	105,440	16.9
Long-term debt:				
FHLB advances	612,451	677,910	(65,459)	(9.7)
Other long-term debt	370,853	383,613	(12,760)	(3.3)
Total long-term debt	983,304	1,061,523	(78,219)	(7.4)
Total	$1,711,406	$1,684,185	$27,221	1.6 %

The $47.7 million, or 11.8%, decrease in short-term customer funding was primarily due to customers transferring funds from the cash management program to deposit products due to the low interest rate environment. The $153.1 million, or 69.8%, increase in Federal funds purchased and other short-term borrowings was due to the Corporation's purchase of investment securities during the first quarter of 2012, the increase in average loans and the decrease in average deposits. The $65.5 million decrease in FHLB advances was due to maturities, which were not replaced with new advances.

Provision for Credit Losses and Allowance for Credit Losses

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

	Three months ended March 31	
	2012	2011
	(dollars in thousands)	
Loans, net of unearned income, outstanding at end of period	$11,957,600	$11,873,208
Daily average balance of loans, net of unearned income	$11,978,972	$11,921,442
Balance of allowance for credit losses at beginning of period	$258,177	$275,498
Loans charged off:		
Real estate – commercial mortgage	11,891	10,047
Real estate – construction	8,571	13,894
Commercial – industrial, financial and agricultural	5,669	13,336
Real estate – home equity	2,206	1,468
Real estate – residential mortgage	847	4,996
Consumer	634	1,291
Leasing and other	441	497
Total loans charged off	30,259	45,529
Recoveries of loans previously charged off:		
Real estate – commercial mortgage	816	1,535
Real estate – construction	64	563
Commercial – industrial, financial and agricultural	636	391
Real estate – home equity	20	1
Real estate – residential mortgage	73	44
Consumer	350	309
Leasing and other	260	344
Total recoveries	2,219	3,187
Net loans charged off	28,040	42,342
Provision for credit losses	28,000	38,000
Balance of allowance for credit losses at end of period	$258,137	$271,156
Components of the Allowance for Credit Losses:		
Allowance for loan losses	$256,496	$270,272
Reserve for unfunded lending commitments	1,641	884
Allowance for credit losses	$258,137	$271,156
Selected Ratios:		
Net charge-offs to average loans (annualized)	0.94 %	1.42 %
Allowance for credit losses to loans outstanding	2.16 %	2.28 %

The provision for credit losses was $28.0 million for the first quarter of 2012, a decrease of $10.0 million, or 26.3%, from the first quarter of 2011. The decrease in the provision for credit losses was due to the continuing improvement in the Corporation's credit quality metrics, including a reduction in the level of non-performing loans and overall delinquency.

Net charge-offs decreased $14.3 million, or 33.8%, to $28.0 million for the first quarter of 2012 compared to $42.3 million for the first quarter of 2011. The decrease in net charge-offs was due to decreases in commercial loan net charge-offs ($7.9 million, or 61.1%), construction loan net charge-offs ($4.8 million, or 36.2%) and residential mortgage net charge-offs ($4.2 million, or 84.4%), partially offset by increases in commercial mortgage net charge-offs ($2.6 million, or 30.1%).

Of the $28.0 million of net charge-offs recorded in the first quarter of 2012, 41.3% were for loans originated in New Jersey, 26.8% in Pennsylvania, 23.8% in Virginia and 7.3% in Maryland. Charge-offs for the first quarter of 2012

included five individual charge-offs of $1.0 million or greater, totaling $11.8 million, of which $6.0 million were commercial mortgages and $5.8 million were

37

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construction loans.

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

	March 31, 2012	December 31, 2011	March 31, 2011
	(dollars in thousands)		
Non-accrual loans	$248,719	$257,761	$280,270
Loans 90 days past due and accruing	35,270	28,767	37,768
Total non-performing loans	283,989	286,528	318,038
Other real estate owned (OREO)	33,516	30,803	37,044
Total non-performing assets	$317,505	$317,331	$355,082
Non-accrual loans to total loans	2.08 %	2.15 %	2.36 %
Non-performing assets to total assets	1.92 %	1.94 %	2.22 %
Allowance for credit losses to non-performing loans	90.90 %	90.11 %	85.26 %
Non-performing assets to tangible common shareholders’ equity and allowance for credit losses	18.27 %	18.60 %	21.72 %

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

	March 31, 2012	December 31, 2011	March 31, 2011
	(in thousands)		
Real estate – commercial mortgage	$104,076	$113,806	$97,305
Commercial – industrial, financial and agricultural	82,884	80,944	86,050
Real estate – construction	59,917	60,744	72,880
Real estate – residential mortgage	23,016	16,336	49,998
Real estate – home equity	10,914	11,207	9,314
Consumer	2,834	3,384	2,258
Leasing	348	107	233
Total non-performing loans	$283,989	$286,528	$318,038

Non-performing loans decreased to $284.0 million at March 31, 2012, from $318.0 million at March 31, 2011. The $34.0 million, or 10.7%, decrease was due to a $27.0 million, or 54.0%, decrease in non-performing residential mortgages, a $13.0 million, or 17.8%, decrease in non-performing construction loans and a $3.2 million, or 3.7%, decrease in non-performing commercial loans, partially offset by a $6.8 million, or 7.0%, increase in non-performing commercial mortgages and a $1.6 million, or 17.2%, increase in non-performing home equity loans.

The $27.0 million decrease in non-performing residential mortgages was largely due to the Corporation's sale of $34.7 million of non-performing residential mortgages in December 2011, partially offset by additions during the first quarter of 2012.

The $13.0 million decrease in non-performing construction loans was primarily due to $33.3 million of charge-offs recorded since March 31, 2011, partially offset by additions to non-performing construction loans. Geographically, the decrease in non-performing construction loans was primarily in the Corporation’s Virginia ($17.0 million, or 53.2%) and Maryland ($2.8 million, or 13.0%) markets, partially offset by increases in the Pennsylvania ($4.6 million, or 82.9%) and New Jersey ($2.6 million, or 19.9%) markets.

The $3.2 million decrease in non-performing commercial loans was primarily due to a decrease in the Corporation's Virginia ($12.4 million, or 75.5%) market, partially offset by increases in the Pennsylvania ($4.8 million, or 10.6%) New Jersey ($4.4 million, or 28.7%) markets.

The $6.8 million increase in non-performing commercial mortgages was due to increases in the Corporation's Maryland ($7.3 million, or 213.9%), Virginia ($5.2 million, or 159.4%) and New Jersey ($4.3 million, or 8.7%) markets, partially offset by decreases in the Delaware ($5.4 million, or 64.6%) and Pennsylvania ($4.7 million, or 14.3%) markets.

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

	March 31, 2012	December 31, 2011	March 31, 2011
	(in thousands)		
Real estate – residential mortgage	$33,800	$32,331	$39,558
Real estate – commercial mortgage	28,153	22,425	31,967
Real estate – construction	10,303	7,645	5,440
Commercial – industrial, financial and agricultural	4,075	3,581	4,074
Consumer and home equity	464	193	260
Total accruing TDRs	$76,795	$66,175	$81,299

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

	March 31, 2012	December 31, 2011	March 31, 2011
	(in thousands)		
Commercial properties	$16,520	$15,184	$18,475
Residential properties	10,739	10,499	14,738
Undeveloped land	6,257	5,120	3,831
Total OREO	$33,516	$30,803	$37,044

The following table summarizes loan delinquency rates, by type, as of March 31:

	2012			2011		
	31-89 Days	> 90 Days (1)	Total	31-89 Days	> 90 Days (1)	Total
Real estate – commercial mortgage	0.43 %	2.24 %	2.67 %	0.66 %	2.21 %	2.87 %
Commercial – industrial, financial and agricultural	0.35 %	2.36 %	2.71 %	0.50 %	2.33 %	2.83 %
Real estate – construction	0.56 %	9.25 %	9.81 %	0.56 %	9.75 %	10.31 %
Real estate – residential mortgage	2.76 %	1.96 %	4.72 %	3.47 %	4.89 %	8.36 %
Real estate – home equity	0.74 %	0.68 %	1.42 %	0.74 %	0.57 %	1.31 %
Consumer, leasing and other	1.40 %	0.84 %	2.24 %	1.26 %	0.64 %	1.90 %
Total	0.71 %	2.38 %	3.09 %	0.88 %	2.67 %	3.55 %
Total dollars (in thousands)	$85,411	$283,989	$369,400	$104,046	$318,038	$422,084

(1) Includes non-accrual loans.

The Corporation believes that the allowance for credit losses of $258.1 million as of March 31, 2012 is sufficient to cover losses inherent in both the loan portfolio and the unfunded lending commitments as of that date and is appropriate based on applicable accounting standards.

39

Other Income
The following table presents the components of other income:

	Three months ended March 31		Increase (decrease)	
	2012	2011	$	%
	(dollars in thousands)			
Overdraft fees	$7,965	$7,571	$394	5.2 %
Cash management fees	2,613	2,450	163	6.7
Other	4,264	3,284	980	29.8
Service charges on deposit accounts	14,842	13,305	1,537	11.6
Merchant fees	2,859	2,147	712	33.2
Foreign currency processing income	2,392	2,197	195	8.9
Debit card income	2,101	4,204	(2,103)	(50.0)
Letter of credit fees	1,317	1,255	62	4.9
Other	1,886	1,679	207	12.3
Other service charges and fees	10,555	11,482	(927)	(8.1)
Mortgage banking income	10,050	5,463	4,587	84.0
Investment management and trust services	9,377	9,204	173	1.9
Credit card income	1,898	1,596	302	18.9
Other	3,707	2,126	1,581	74.4
Total, excluding investment securities gains	50,429	43,176	7,253	16.8
Investment securities gains	1,251	2,285	(1,034)	(45.3)
Total	$51,680	$45,461	$6,219	13.7 %

Effective October 1, 2011, as required under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the Corporation became subject to new regulations that established maximum interchange fees that issuers could charge on debit card transactions. The variances in many categories of fee income were directly or indirectly impacted by the effects of these new regulations. Directly, these new pricing regulations resulted in the $2.1 million, or 50%, decrease in debit card income.

Indirect effects were reflected in other fee categories, where changes to pricing structures were made to mitigate the negative effect of the impact to debit card income. These fee changes had a positive impact on overdraft fees ($394,000, or 5.2%, increase), merchant fees ($712,000, or 33.2%, increase) and other service charges on deposit accounts ($980,000, or 29.8%, increase).

During the first quarter of 2012, the Corporation experienced a $4.6 million, or 84.0%, increase in mortgage banking income. Gains on sales of mortgage loans increased $5.1 million, or 113.0%, due to a $287.4 million, or 87.5%, increase in the volume of new loan commitments and a slight increase in pricing spreads. The increase in volumes was largely due to higher refinances in the persistent low interest rate environment. The increase in gains on sales of mortgage loans was partially offset by an increase in mortgage servicing rights amortization.

The $302,000, or 18.9%, increase in credit card income was primarily due to balance growth and partially due to an increase in the number of customer transactions. The $1.6 million, or 74.4%, increase in other income was mainly due to $1.5 million of gains on the sales of two branches and one operations facility.

The $1.3 million of investment securities gains for the first quarter of 2012 was due to $1.1 million of realized gains on the sales of stocks of financial institutions and $165,000 of realized gains on the sales of debt securities, primarily mortgage-backed securities. Investment securities gains of $2.3 million for the first quarter of 2011 included $3.6 million of realized gains on the sales of securities partially offset by $1.3 million of other-than-temporary impairment charges. During the first quarter of 2011, the Corporation recorded $994,000 of other-than-temporary impairment charges for pooled trust preferred securities issued by financial institutions and $297,000 of other-than-temporary impairment charges for certain stocks of financial institutions. See Note D, "Investment Securities," in the Notes to Consolidated Financial Statements for additional details.

Other Expenses

The following table presents the components of other expenses:

	Three months ended March 31		Increase (decrease)	
	2012	2011	$	%
	(dollars in thousands)			
Salaries and employee benefits	$60,360	$54,308	$6,052	11.1 %
Net occupancy expense	10,935	11,366	(431)	(3.8)
Data processing	3,688	3,372	316	9.4
Equipment expense	3,369	3,132	237	7.6
Operating risk loss	3,368	(462)	3,830	829.0
FDIC insurance expense	3,021	4,754	(1,733)	(36.5)
OREO and repossession expense	2,928	1,271	1,657	130.4
Professional fees	2,582	2,849	(267)	(9.4)
Marketing	2,472	2,836	(364)	(12.8)
Software	2,175	2,031	144	7.1
Telecommunications	1,901	2,172	(271)	(12.5)
Postage	1,285	1,405	(120)	(8.5)
Supplies	1,225	1,375	(150)	(10.9)
Intangible amortization	801	1,178	(377)	(32.0)
Other	10,601	9,277	1,324	14.3
Total	$110,711	$100,864	$9,847	9.8 %

Salaries and employee benefits increased $6.1 million, or 11.1%, with salaries increasing $4.5 million, or 10.1%, and employee benefits increasing $1.5 million, or 16.5%. The increase in salaries was primarily due to normal merit increases and a $2.2 million increase in incentive compensation. The increase in employee benefits was primarily due to an increase in healthcare costs as claims increased, and an increase in defined benefit plan expense.

The $3.8 million increase in operating risk loss was largely due to estimated losses associated with previously sold residential mortgages. During the first quarter of 2012, the Corporation recorded a $2.6 million charge related to residential mortgage loans sold under one specific investor program with the FHLB. During the first quarter of 2012, credit losses under the program were projected to exceed defined levels and, as a result, the Corporation recorded a reserve for estimated credit losses as of March 31, 2012. The first quarter of 2011 included a $900,000 decrease in reserves associated with the potential repurchase of previously sold residential mortgage and home equity loans as a result of the Corporation entering into a settlement agreement with a secondary market investor. See Note J, "Commitments and Contingencies," in the Notes to Consolidated Financial Statements for additional details.

The $1.7 million, or 36.5%, decrease in FDIC insurance expense was largely due to a change in the assessment base, which, effective April 1, 2011, was based on total average assets minus average tangible equity, compared to total domestic deposits for the first quarter of 2011.

OREO and repossession expense increased $1.7 million, or 130.4%, mainly due to a $1.3 million increase in net losses on sales. This expense category is expected to be volatile as the Corporation continues to work through its non-performing assets.

The $364,000, or 12.8%, decrease in marketing expense was primarily due to the Corporation's efforts to control discretionary spending and the timing of promotional campaigns. Intangible amortization decreased $377,000, or 32.0%, due to accelerated amortization of certain core deposit intangible assets. Other expenses increased $1.3 million, or 14.3%, largely due to an $856,000, or 129.4%, increase in non-income taxes and a $687,000, or 42.3%, increase in consulting and outside services. Non-income taxes increased due to growth in the taxable capital base of certain banks and a decrease in credits and sales tax refunds.

Income Taxes

Income tax expense for the first quarter of 2012 was $13.5 million, a $1.2 million, or 9.3%, increase from $12.4 million for the first quarter of 2011. The increase was primarily due to the increase in income before income taxes.

The Corporation’s effective tax rate was 26.2% in 2012, as compared to 26.8% in 2011. The effective rate is generally lower than

41

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the Federal statutory rate of 35% due to investments in tax-free municipal securities and credits earned from investments in partnerships that generate such credits under various federal programs.

FINANCIAL CONDITION

Total assets were $16.5 billion at March 31, 2012, an increase of $165.7 million, or 1.0%, in comparison to December 31, 2011.

Investment securities increased $409.4 million, or 15.3%. During the first three months of 2012, the Corporation increased its investments in mortgage-backed securities and collateralized mortgage obligations in anticipation of a continued low interest rate environment.

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

	March 31, 2012	December 31, 2011
	(in thousands)	
Real-estate – commercial mortgage	$4,634,428	$4,602,596
Commercial – industrial, financial and agricultural	3,518,228	3,639,368
Real-estate – home equity	1,601,880	1,624,562
Real-estate – residential mortgage	1,176,947	1,097,192
Real-estate – construction	647,700	615,445
Consumer	308,495	318,101
Leasing and other	69,922	71,706
Loans, net of unearned income	$11,957,600	$11,968,970

Approximately $5.3 billion, or 44.2%, of the Corporation’s loan portfolio was in commercial mortgage and construction loans at March 31, 2012. The Corporation did not have a significant concentration of credit risk with any single borrower, industry or geographical location.

The Corporation experienced an $11.4 million, or 0.1%, decrease in loans, net of unearned income, as of March 31, 2012 in comparison to December 31, 2011. This decrease was due to a $121.1 million, or 3.3%, decrease in commercial loans and a $22.7 million, or 1.4%, decrease in home equity loans. These decreases were offset by a $79.8 million, or 7.3%, increase in residential mortgages, a $32.3 million, or 5.2%, increase in construction loans and a $31.8 million, or 0.7%, increase in commercial mortgages.

The $121.1 million, or 3.3%, decrease in commercial loans was experienced throughout all of the Corporation’s markets. Commercial line of credit usage declined by approximately $60 million as cash conservation continues among the Corporation's commercial customer base.

The $79.8 million, or 7.3%, increase in residential mortgages was due to the Corporation's retention in portfolio of certain 10 and 15 year fixed rate mortgages and certain adjustable rate mortgages. The $32.3 million, or 5.2%, increase in construction loans was due to increases in the Corporation's Pennsylvania ($25.6 million, or 9.0%) and Virginia ($16.2 million, or 14.0%) markets, which have begun to experience some growth in residential construction activity as a result of improvements in housing demand.

Other assets decreased $183.4 million, or 28.0%. As of December 31, 2011, the Corporation had $181.6 million of receivables outstanding related to investment security sales that had not settled at year-end. The Corporation had no such receivables outstanding as of March 31, 2012.

Deposits decreased $185.0 million, or 1.5%, due to a decrease in demand and savings deposits of $47.6 million, or 0.6%, and a decrease in time deposits of $137.4 million, or 3.4%. Non-interest bearing accounts increased $94.2 million, or 3.6%, due primarily to a $46.3 million, or 7.4%, increase in personal accounts and a $34.5 million increase in business accounts. Interest-bearing demand and saving deposits decreased $141.9 million, or 2.4%, due to a $172.4 million, or 10.9%, decrease in municipal account balances, partially offset by a $78.7 million, or 2.3%, increase in personal accounts. The decrease in municipal accounts was largely driven by a reduction in rates paid on these accounts and movement of balances to cash reserve investment accounts. The $137.4 million decrease in time deposits was mostly due to a decline in accounts with original maturity terms of less than two years of $133.9 million, or 6.2%.

Short-term borrowings increased $367.5 million, or 61.6%, due to a $332.1 million, or 131.0%, increase in Federal funds purchased and a $35.4 million, or 10.3%, increase in other short-term borrowings. The increase in Federal funds purchased was due to the change in the Corporation's overall liquidity position, as an increase in investment securities and a decrease in deposits required the use of short-term borrowings. Long-term debt decreased $106.2 million, or 10.2%, as a result of FHLB advance maturities,

42

which were not replaced with new long-term borrowings.

Capital Resources

Total shareholders' equity increased $30.3 million, or 1.5%, during the first three months of 2012. The increase was due to $38.1 million of net income and a $4.7 million increase in holding gains on available for sale investment securities, partially offset by $14.0 million of dividends on common shares outstanding.

As a result of the continued growth in earnings, the Corporation increased its dividend to common shareholders to $0.07 per share for the first quarter of 2012, a three cent, or 75.0%, increase in comparison to the first quarter of 2011.

The Corporation and its subsidiary banks are subject to various regulatory capital requirements administered by banking regulators. Failure to meet minimum capital requirements can initiate certain actions by regulators that could have a material effect on the Corporation's consolidated financial statements. The regulations require that banks maintain minimum amounts and ratios of total and Tier I capital (as defined in the regulations) to risk weighted assets (as defined), and Tier I capital to average assets (as defined). As of March 31, 2012, the Corporation and each of its bank subsidiaries met the minimum requirements. In addition, each of the Corporation's bank subsidiaries' capital ratios exceeded the amounts required to be considered "well capitalized" as defined in the regulations.

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

	March 31, 2012		December 31, 2011		Regulatory Minimum Capital Adequacy	
Total Capital (to Risk-Weighted Assets)	15.5	%	15.2	%	8.0	%
Tier I Capital (to Risk-Weighted Assets)	13.0	%	12.7	%	4.0	%
Tier I Capital (to Average Assets)	10.4	%	10.3	%	4.0	%
Tangible Common Equity (to Risk-Weighted Assets) (1)	11.8	%	11.4	%	N/A	

(1) Ending shareholders' equity, net of goodwill and intangible assets, divided by risk-weighted assets.

N/A – Not applicable.

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 a framework for strengthening international capital and liquidity regulations, referred to as Basel III. Basel III includes defined minimum capital ratios, which must be met when implementation occurs on January 1, 2013. An additional "capital conservation buffer" will be phased-in beginning January 1, 2016 and, when fully phased-in three years later, the minimum ratios will be 2.5% higher. Fully phased-in capital standards under Basel III will require banks to maintain more capital than the minimum levels required under current regulatory capital standards.

The U.S. banking regulators have not yet proposed regulations implementing Basel III, but are expected to do so in the near future. As of March 31, 2012, the Corporation met the fully phased-in minimum capital ratios required for each of the capital measures included in Basel III.

Liquidity

The Corporation must maintain a sufficient level of liquid assets to meet the cash needs of its customers, who, as depositors, may want to withdraw funds or who, as borrowers, need credit availability. Liquidity is provided on a continuous basis through scheduled and unscheduled principal and interest payments on outstanding loans and investments and through the availability of deposits and borrowings. The Corporation also maintains secondary sources that provide liquidity on a secured and unsecured basis to meet short-term needs.

Each of the Corporation's subsidiary banks is a member of the FHLB and has access to FHLB overnight and term credit facilities. As of March 31, 2012, the Corporation had $589.5 million of short and long-term FHLB advances outstanding from the FHLB with an additional $756.2 million borrowing capacity under these facilities. Advances

from the FHLB are secured by FHLB stock, qualifying residential mortgages, investments and other assets.

A combination of commercial real estate loans, commercial loans and securities are pledged to the Federal Reserve Bank of

43

Philadelphia to provide access to Federal Reserve Bank Discount Window borrowings. As of March 31, 2012, the Corporation had $1.7 billion of collateralized borrowing availability at the Discount Window, and no outstanding borrowings.

Liquidity must also be managed at the Fulton Financial Corporation parent company level. For safety and soundness reasons, banking regulations limit the amount of cash that can be transferred from subsidiary banks to the parent company in the form of loans and dividends. Generally, these limitations are based on the subsidiary banks' regulatory capital levels and their net income. Management continues to monitor the liquidity and capital needs of the parent company and will implement appropriate strategies, as necessary, to remain adequately capitalized and to meet its cash needs.

The Corporation's sources and uses of funds were discussed in general terms in the net interest income section of Management's Discussion. The consolidated statements of cash flows provide additional information. The Corporation's operating activities during the first three months of 2012 generated $63.1 million of cash, mainly due to net income, as adjusted for non-cash expenses, most notably the provision for credit losses, and a net decrease in loans held for sale. Cash flows used in investing activities were $134.6 million, due mainly to purchases of investment securities exceeding proceeds from the maturities and sales of investment securities. Net cash generated by financing activities was $65.7 million due to a net increase in short-term borrowings exceeding cash outflows from deposit decreases and repayments of long-term debt.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the exposure to economic loss that arises from changes in the values of certain financial instruments. The types of market risk exposures generally faced by financial institutions include interest rate risk, equity market price risk, debt security market price risk, foreign currency risk and commodity price risk. Due to the nature of its operations, only equity market price risk, debt security market price risk and interest rate risk are significant to the Corporation.

Equity Market Price Risk

Equity market price risk is the risk that changes in the values of equity investments could have a material impact on the financial position or results of operations of the Corporation. The Corporation’s equity investments consisted of $79.7 million of Federal Home Loan Bank (FHLB) and Federal Reserve Bank stock, $26.8 million of common stocks of publicly traded financial institutions, and $6.6 million of other equity investments. The equity investments most susceptible to equity market price risk are the financial institutions stocks, which had a cost basis of approximately $24.0 million and fair value of $26.8 million at March 31, 2012. Gross unrealized losses were $1.0 million and gross unrealized gains in this portfolio were $3.8 million.

The Corporation has evaluated whether any unrealized losses on individual equity investments constituted other-than-temporary impairment, which would require a write-down through a charge to earnings. Based on the results of such evaluations, the Corporation did not record any write-downs for specific financial institution stocks that were deemed to exhibit other-than-temporary impairment in value during the three months ended March 31, 2012. Additional impairment charges may be necessary in the future depending upon the performance of the equity markets in general and the performance of the individual investments held by the Corporation. See Note D, “Investment Securities” in the Notes to Consolidated Financial Statements for additional details.

Management continuously monitors the fair value of its equity investments and evaluates current market conditions and operating results of the issuers. Periodic sale decisions are made based on this monitoring process. None of the Corporation’s equity securities are classified as trading.

Another source of equity market price risk is the investment in FHLB stock, which the Corporation is required to own in order to borrow funds from the FHLB. As of March 31, 2012, the Corporation’s investment in FHLB stock was $60.5 million. FHLBs obtain funding primarily through the issuance of consolidated obligations of the FHLB system. The U.S. government does not guarantee these obligations, and each of the FHLB banks is, generally, jointly and severally liable for repayment of each other’s debt. The financial stress experienced by the FHLB system appears to be easing and some of the regional banks within the FHLB system have resumed limited redemptions of capital stock. However, the Corporation's FHLB stock and its ability to obtain FHLB funds could be adversely impacted if the financial health of the FHLB system deteriorates.

In addition to its equity portfolio, the Corporation’s investment management and trust services income may be impacted by fluctuations in the equity markets. A portion of this revenue is based on the value of the underlying investment portfolios, many of which include equity investments. If the values of those investment portfolios decrease, whether due to factors influencing U.S. equity markets in general or otherwise, the Corporation’s revenue would be negatively impacted. In addition, the Corporation’s ability to sell its brokerage services in the future will be dependent, in part, upon consumers’ level of confidence in financial markets.

Debt Security Market Price Risk

Debt security market price risk is the risk that changes in the values, unrelated to interest rate changes, of debt securities could have a material impact on the financial position or results of operations of the Corporation. The Corporation’s debt security investments consist primarily of mortgage-backed securities and collateralized mortgage obligations, state and municipal securities, U.S. government sponsored agency securities, U.S. government debt securities, auction rate securities and corporate debt securities. All of the Corporation's investments in mortgage-backed securities and collateralized mortgage obligations have principal payments that are guaranteed by U.S. government sponsored agencies.

Municipal Securities

As of March 31, 2012, the Corporation had $310.6 million of securities issued by various municipalities in its investment portfolio. Ongoing uncertainty with respect to the financial viability of municipal insurers places much greater emphasis on the underlying strength of issuers. Continued pressure on local tax revenues of issuers could also have an adverse impact on the underlying credit quality of issuers. The Corporation evaluates existing and potential holdings primarily based on the creditworthiness of the issuing municipality and then, to a lesser extent, on the underlying credit enhancement. As of March 31, 2012, approximately 94% of municipal securities were supported by the general obligation of corresponding municipalities. In addition, approximately 75% of these securities were school district issuances that were supported by the states of the issuing municipalities.

Auction Rate Certificates

As of March 31, 2012, the Corporation’s investments in student loan auction rate securities, also known as auction rate certificates (ARCs), had a cost basis of $241.7 million and a fair value of $223.9 million.

ARCs are long-term securities structured to allow their sale in periodic auctions, resulting in both the treatment of ARCs as short-term instruments in normal market conditions and fair values that could be derived based on periodic auction prices. However, beginning in 2008, auctions for these securities began to fail due to an insufficient number of buyers, resulting in an illiquid market. This illiquidity has resulted in recent market prices that represent forced liquidations or distressed sales and do not provide an accurate basis for fair value. Therefore, at March 31, 2012, the fair values of the ARCs were derived using significant unobservable inputs based on an expected cash flows model which produced fair values that were materially different from those that would be expected from settlement of these investments in the illiquid market that presently exists. The expected cash flows model, prepared by a third-party valuation expert, produced fair values which assumed a return to market liquidity sometime within the next three years.

The credit quality of the underlying debt associated with ARCs is also a factor in the determination of their estimated fair value. As of March 31, 2012, approximately $173 million, or 77%, of the ARCs were rated above investment grade, with approximately $27 million, or 12%, AAA rated and $106 million, or 47%, AA rated. Approximately $51 million, or 23%, of ARCs were either not rated or rated below investment grade by at least one ratings agency. Of this amount, approximately $32 million, or 63%, of the student loans underlying these ARCs have principal payments which are guaranteed by the federal government. In total, approximately $203 million, or 91%, of the student loans underlying the ARCs have principal payments which are guaranteed by the federal government. As of March 31, 2012, all ARCs were current and making scheduled interest payments.

Corporate Debt Securities

The Corporation holds corporate debt securities in the form of pooled trust preferred securities, single-issuer trust preferred securities and subordinated debt issued by financial institutions, as presented in the following table:

	March 31, 2012	
	Amortized cost	Estimated fair value
	(in thousands)	
Single-issuer trust preferred securities	$83,935	$77,625
Subordinated debt	40,211	42,357
Pooled trust preferred securities	6,004	5,062
Corporate debt securities issued by financial institutions	$130,150	$125,044

The fair values for pooled trust preferred securities and certain single-issuer trust preferred securities were based on quotes provided by third-party brokers who determined fair values based predominantly on internal valuation models which were not indicative prices or binding offers.

The Corporation’s investments in single-issuer trust preferred securities had an unrealized loss of $6.3 million at March 31, 2012. The Corporation did not record any other-than-temporary impairment charges for single-issuer trust preferred securities during the three months ended March 31, 2012 or 2011. The Corporation held 13 single-issuer trust preferred securities that were rated below investment grade by at least one ratings agency, with an amortized cost of $41.2 million and an estimated fair value of $40.6 million as of March 31, 2012. The majority of the single-issuer trust preferred securities rated below investment grade were rated BB or Ba. Single-issuer trust preferred securities with an amortized cost of $7.8 million and an estimated fair value of $6.3 million at March 31, 2012 were not rated by any ratings agency.

The Corporation holds ten pooled trust preferred securities. As of March 31, 2012, nine of these securities, with an amortized cost of $5.6 million and an estimated fair value of $4.7 million, were rated below investment grade by at least one ratings agency, with ratings ranging from C to Ca. For each of the nine pooled trust preferred securities rated below investment grade, the class of securities held by the Corporation was below the most senior tranche, with the

Corporation's interests being subordinate to other investors in the pool.
The amortized cost of pooled trust preferred securities is the purchase price of the securities, net of cumulative credit related other-than-temporary impairment charges, determined using an expected cash flows model. The most significant input to the expected cash flows model was the expected payment deferral rate for each pooled trust preferred security. The Corporation evaluates the financial metrics, such as capital ratios and non-performing asset ratios, of the individual financial institution issuers that comprise each pooled trust preferred security to estimate its expected deferral rate. The actual weighted average cumulative defaults and

deferrals as a percentage of original collateral were approximately 39% as of March 31, 2012. The discounted cash flows modeling for pooled trust preferred securities held by the Corporation as of March 31, 2012 assumed, on average, an additional 15% expected deferral rate.

During the three months ended March 31, 2012, the Corporation did not record any other-than-temporary impairment losses for pooled trust preferred securities. Additional impairment charges for debt securities issued by financial institutions may be necessary in the future depending upon the performance of the individual investments held by the Corporation.

See Note D, "Investment Securities" in the Notes to Consolidated Financial Statements for further discussion related to the Corporation’s other-than-temporary impairment evaluations for debt securities and Note L, "Fair Value Measurements" in the Notes to Consolidated Financial Statements for further discussion related to the fair values of debt securities.

Interest Rate Risk

Interest rate risk creates exposure in two primary areas. First, changes in rates have an impact on the Corporation’s liquidity position and could affect its ability to meet obligations and continue to grow. Second, movements in interest rates can create fluctuations in the Corporation’s net income and changes in the economic value of its equity.

The Corporation employs various management techniques to minimize its exposure to interest rate risk. An Asset/Liability Management Committee (ALCO), consisting of key financial and senior management personnel, meets on a regular basis. The ALCO is responsible for reviewing the interest rate sensitivity position of the Corporation, approving asset and liability management policies, and overseeing the formulation and implementation of strategies regarding balance sheet positions and earnings.

The following table provides information about the Corporation’s interest rate sensitive financial instruments on March 31, 2012. The table presents expected cash flows and weighted average rates for each of the Corporation's significant interest rate sensitive financial instruments, by expected maturity period. None of the Corporation’s financial instruments are classified as trading. All dollar amounts are in thousands.

	Expected Maturity Period							Estimated
	Year 1	Year 2	Year 3	Year 4	Year 5	Beyond	Total	Fair Value
Fixed rate loans (1)	$976,392	$501,801	$410,628	$302,300	$232,814	$379,210	$2,803,145	$2,837,32
Average rate	4.06 %	5.66 %	5.58 %	5.49 %	5.63 %	5.52 %	5.05 %	
Floating rate loans (1) (2)	1,841,946	1,209,589	1,039,246	921,264	1,702,803	2,425,825	9,140,673	8,942,067
Average rate	4.52 %	4.59 %	4.62 %	4.59 %	4.25 %	4.83 %	4.58 %	
Fixed rate investments (3)	598,188	414,835	296,473	254,885	208,404	856,114	2,628,899	2,699,151
Average rate	3.49 %	3.56 %	3.47 %	3.59 %	3.57 %	3.39 %	3.48 %	
Floating rate investments (3)	—	—	241,805	—	4,910	57,375	304,090	277,137
Average rate	— %	— %	4.47 %	— %	1.18 %	2.73 %	4.09 %	
Other interest-earning assets	176,355	—	—	—	—	—	176,355	176,355
Average rate	1.75 %	— %	— %	— %	— %	— %	1.75 %	
Total	$3,592,881	$2,126,225	$1,988,152	$1,478,449	$2,148,931	$3,718,524	$15,053,162	$14,932,0
Average rate	4.09 %	4.64 %	4.63 %	4.60 %	4.33 %	4.53 %	4.43 %	
Fixed rate deposits (4)	$1,990,689	$801,210	$274,562	$176,725	$78,457	$32,836	$3,354,479	$3,394,92
Average rate	1.13 %	1.84 %	1.96 %	2.41 %	1.98 %	2.14 %	1.46 %	
Floating rate deposits (5)	4,498,932	650,217	449,682	354,550	255,174	95,429	6,303,984	6,303,984
Average rate	0.24 %	0.15 %	0.13 %	0.11 %	0.10 %	0.16 %	0.21 %	
Fixed rate borrowings (6)	54,068	990	56,288	100,545	471,458	258,873	942,222	896,976
Average rate	2.42 %	5.03 %	3.29 %	5.35 %	4.22 %	6.04 %	4.68 %	
Floating rate borrowings (7)	939,813	—	—	—	—	16,496	956,309	943,975
Average rate	0.16 %	— %	— %	— %	— %	2.65 %	0.20 %	
Total	$7,483,502	$1,452,417	$780,532	$631,820	$805,089	$403,634	$11,556,994	$11,539,8
Average rate	0.48 %	1.09 %	1.00 %	1.59 %	2.69 %	4.19 %	0.94 %	

(1) Amounts are based on contractual payments and maturities, adjusted for expected prepayments. Excludes $13.8 million of overdraft deposit balances.
(2) Line of credit amounts are based on historical cash flow assumptions, with an average life of approximately 5 years.
(3) Amounts are based on contractual maturities; adjusted for expected prepayments on mortgage-backed securities and collateralized mortgage obligations and expected calls on agency and municipal securities. Excludes equity securities as such investments do not have maturity dates.
(4) Amounts are based on contractual maturities of time deposits.
(5) Estimated based on history of deposit flows.
(6) Amounts are based on contractual maturities of debt instruments, adjusted for possible calls. Amounts also include junior subordinated deferrable interest debentures.
(7) Amounts include Federal Funds purchased, short-term promissory notes and securities sold under agreements to repurchase, which mature in less than 90 days, in addition to junior subordinated deferrable interest debentures.

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

Included within the $9.1 billion of floating rate loans above are $3.9 billion of loans, or 42.6% of the total, that float with the prime interest rate, $1.3 billion, or 14.2%, of loans that float with other interest rates, primarily LIBOR, and $3.9 billion, or 43.2%, of adjustable rate loans. The $3.9 billion of adjustable rate loans include loans that are fixed rate instruments for a certain period of time, and then convert to floating rates.

The following table presents the percentage of adjustable rate loans, at March 31, 2012, stratified by the period until their next repricing:

	Percent of Total Adjustable Rate Loans
One year	28.5%
Two years	24.0
Three years	16.2
Four years	13.7
Five years	11.6
Greater than five years	6.0

As of March 31, 2012, approximately $5.6 billion of loans had interest rate floors, with approximately $3.2 billion priced at their interest rate floor. Of this total, approximately $2.5 billion have repricing dates during the next twelve months. The weighted average interest rate increase that would be necessary for these loans to begin repricing to higher rates was approximately 0.76%.

The Corporation uses three complementary methods to measure and manage interest rate risk. They are static gap analysis, simulation of earnings and estimates of economic value of equity. Using these measurements in tandem provides a reasonably comprehensive summary of the magnitude of the Corporation's interest rate risk, level of risk as time evolves, and exposure to changes in interest rates.

Static gap provides a measurement of repricing risk in the Corporation’s balance sheet as of a point in time. This measurement is accomplished through stratification of the Corporation’s assets and liabilities into repricing periods. The sum of assets and liabilities in each of these periods are compared for mismatches within that maturity segment. Core deposits having no contractual maturities are placed into repricing periods based upon historical balance performance. Repricing for mortgage loans, mortgage-backed securities and collateralized mortgage obligations are based upon industry projections for prepayment speeds. The Corporation’s policy limits the cumulative six-month ratio of rate sensitive assets to rate sensitive liabilities (RSA/RSL) to a range of 0.85 to 1.15. As of March 31, 2012, the cumulative six-month ratio of RSA/RSL was 1.05.

Simulation of net interest income is performed for the next twelve-month period. A variety of interest rate scenarios are used to measure the effects of sudden and gradual movements upward and downward in the yield curve. These results are compared to the results obtained in a flat or unchanged interest rate scenario. Simulation of earnings is used primarily to measure the Corporation’s short-term earnings exposure to rate movements. The Corporation’s policy limits the potential exposure of net interest income to 10% of the base case net interest income for a 100 basis point shock in interest rates, 15% for a 200 basis point shock and 20% for a 300 basis point shock. A "shock" is an immediate upward or downward movement of interest rates across the yield curve. The shocks do not take into account changes in customer behavior that could result in changes to mix and/or volumes in the balance sheet nor do they account for competitive pricing over the forward 12-month period.

The following table summarizes the expected impact of interest rate shocks on net interest income (due to the current level of interest rates, the 200 and 300 basis point downward shock scenarios are not shown):

Rate Shock	Annual change in net interest income	% Change
+300 bp	+ $ 42.2 million	+7.6%
+200 bp	+ $ 22.9 million	+4.1
+100 bp	+ $ 5.2 million	+0.9
–100 bp (1)	– $ 17.4 million	–3.1

(1) Because certain current short-term interest rates are at or below 1.00%, the 100 basis point downward shock assumes that corresponding interest rates approach an implied floor that, in effect, reflects a decrease of less than the full 100 basis points downward shock.

Economic value of equity estimates the discounted present value of asset cash flows and liability cash flows. Discount rates are based upon market prices for like assets and liabilities. Upward and downward shocks of interest rates are used to determine the comparative effect of such interest rate movements relative to the unchanged environment. This measurement tool is used primarily to evaluate the longer-term repricing risks and options in the Corporation's balance sheet. A policy limit of 10% of economic equity may be at risk for every 100 basis point shock movement in interest rates. As of March 31, 2012, the Corporation was within policy limits for every 100 basis point shock movement in interest rates.

Item 4. Controls and Procedures

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

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings
The Corporation and its subsidiaries are involved in various legal proceedings in the ordinary course of the 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. 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 are not expected to have a material adverse effect on the financial position, the operating results and/or the liquidity of the Corporation. However, litigation is often unpredictable, and the actual results of litigation cannot be determined with certainty.

Item 1A. Risk Factors
There have been no material changes to the risk factors as previously disclosed in Part I, Item 1A of the Corporation's Form 10-K for the year ended December 31, 2011.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
Not applicable.

Item 3. Defaults Upon Senior Securities
Not applicable.

Item 4. Mine Safety Disclosures
Not applicable.

Item 5. Other Information
Not applicable.

Item 6. Exhibits
See Exhibit Index for a list of the exhibits required by Item 601 of Regulation S-K and filed as part of this report.

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

FULTON FINANCIAL CORPORATION

Date: May 24, 2012	/s/ R. Scott Smith, Jr. R. Scott Smith, Jr. Chairman and Chief Executive Officer
Date: May 24, 2012	/s/ Charles J. Nugent Charles J. Nugent Senior Executive Vice President and Chief Financial Officer

52

EXHIBIT INDEX
Exhibits Required Pursuant
to Item 601 of Regulation S-K

3.1	Articles of Incorporation, as amended and restated, of Fulton Financial Corporation– Incorporated by reference to Exhibit 3.1 of the Fulton Financial Corporation Current Report on Form 8-K dated June 24, 2011.
3.2	Bylaws of Fulton Financial Corporation as amended – Incorporated by reference to Exhibit 3.1 of the Fulton Financial Corporation Current Report on Form 8-K dated September 18, 2008.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

53