

FULTON FINANCIAL
CORPORATION

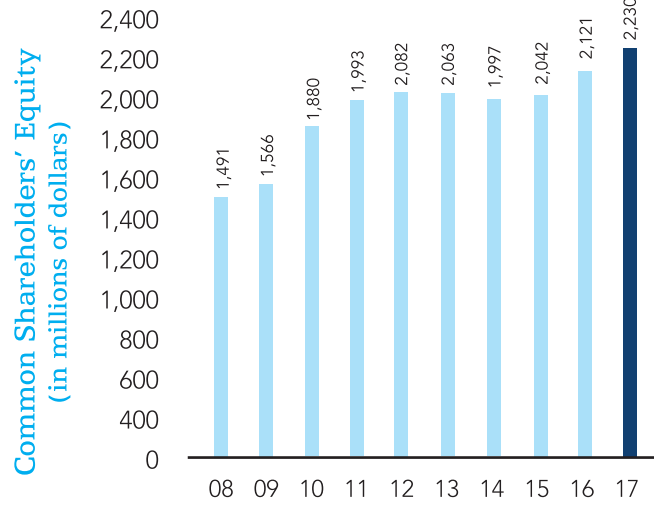
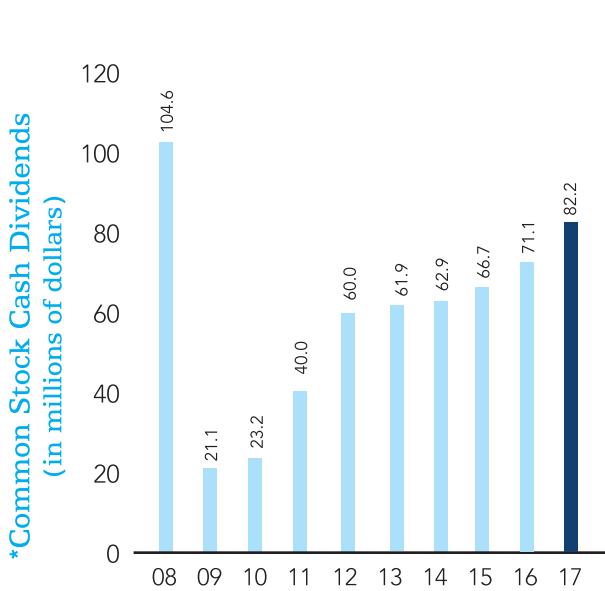
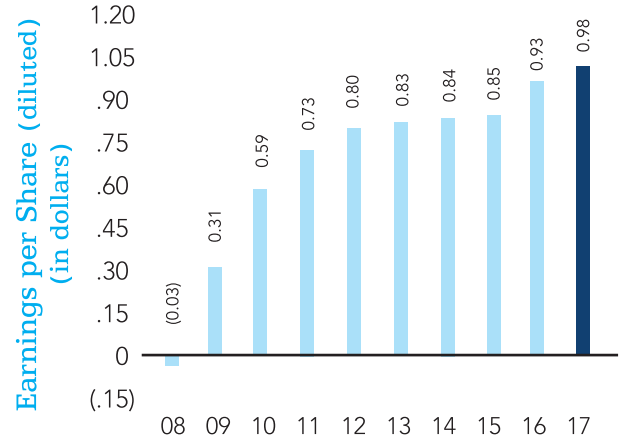
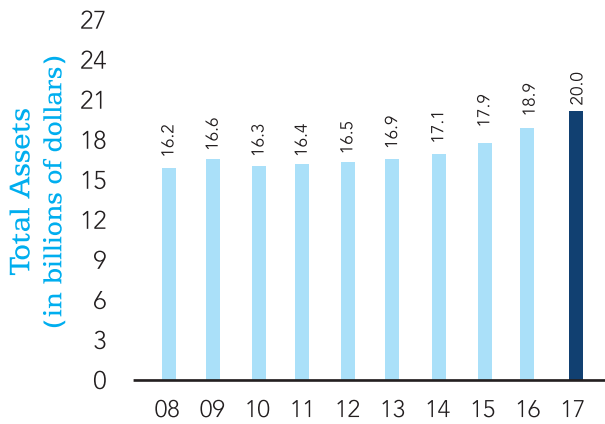
2017

ANNUAL REPORT

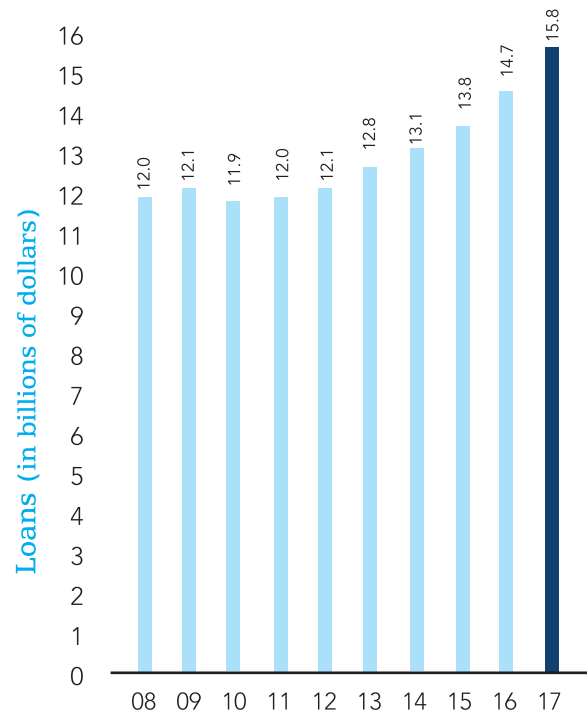
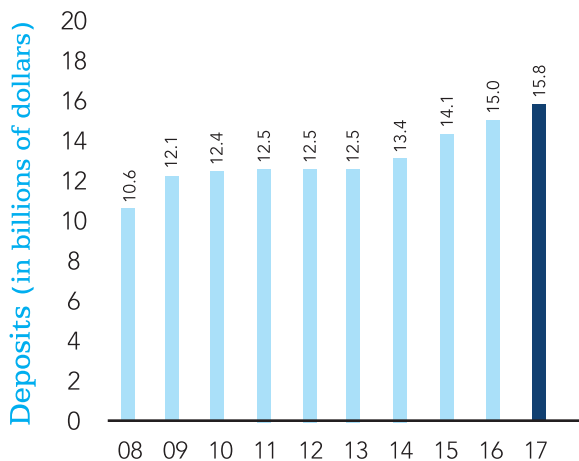
FULTON FINANCIAL CORPORATION



2008-2017



*As we have traditionally reported, these represent CASH dividends only (not stock dividends). We did not note this in the glossary section in 2007's annual report.



Dear Shareholder:

It was another solid year for our company, as we achieved record levels in revenue and net income, excluding the impact of the tax charge¹ resulting from the Tax Cuts and Jobs Act enacted in December 2017. Our financial results in 2017 reflected continued progress in executing our growth strategies, and the benefit of multiple interest rate increases by the Federal Reserve. We generated meaningful positive operating leverage, a goal that we set out to achieve at the beginning of the year. For the year ended December 31, 2017, we reported diluted earnings per share of \$0.98, an increase of 5.4% compared to 2016. Excluding the impact of the tax charge, we reported diluted earnings per share of \$1.07, an increase of 15.0% from 2016.

On the regulatory front, the Office of the Comptroller of the Currency (“OCC”) terminated the consent orders that it issued to three of our bank subsidiaries - Fulton Bank, N.A.; FNB Bank, N.A.; and Swineford National Bank - relating to deficiencies in the Bank Secrecy Act and Anti-Money Laundering (“BSA/AML”) compliance programs at those banks. We are pleased with this acknowledgement of the significant progress we have made in strengthening our BSA/AML compliance programs and remediating the deficiencies identified in the OCC consent orders. We are working diligently to achieve a similar resolution with respect to the remaining BSA/AML consent orders.

In the meantime, we continue to prepare for the consolidation of our affiliate banks into a single bank, and move the organization forward in other ways by focusing on growth, efficiency, and profitability to drive shareholder value.

Loan and Deposit Growth

Loans grew 7.3% in 2017, and was driven by growth in most of our loan portfolios. Growth in our commercial loan portfolio was concentrated primarily in our Pennsylvania market, while growth in our residential mortgage portfolio was concentrated primarily in our Maryland and

Virginia markets. Asset quality continued to be stable, and delinquencies and net charge-offs remained near historically low levels.

Turning to deposits, we were pleased with our deposit growth for 2017. Fulton funds its loans primarily with consumer and commercial deposits. Over the last several years, we have decreased our reliance on higher-cost time deposits in favor of less expensive demand and savings deposits. Demand and savings deposits increased 6.4% in 2017, while higher-cost time deposits decreased by 3.2% for the same period. The growth in demand and savings deposits was driven primarily by our consumer business.

Non-interest Income and Expenses

Excluding securities gains, non-interest income increased by 6.0% in 2017. Non-interest income growth was lower than expected due, in large part, to mortgage banking. While mortgage originations increased 9.0%, 2017 saw a shift in production with 50% of all originations being retained in the portfolio versus being sold. Although the growth in the portfolio contributed to an increase in net interest income, the shift had a negative impact to gain on sale income in 2017. Investment management and trust services income grew at a strong pace in 2017, and our commercial loan interest rate swap, treasury services and Small Business Administration lending businesses all made notable contributions, as did debit and credit card income.

Turning to expenses, our non-interest expenses increased 7.4% in 2017. The efficiency ratio² for 2017 improved to 64.5%, within our goal of 60.0% - 65.0%. In 2018, we will continue to invest in upgrading our systems and optimizing our customer delivery channels while preparing for bank charter consolidation. In addition, we plan on sharing some of the benefits from the new tax legislation with our employees, and increasing our investment in the communities we serve through our Fulton Forward™ initiative. Expense management is a top priority. We continually look for ways to make our organization more efficient while continuing to invest in our company to

support a larger organization that can benefit from economies of scale.

Capital Management and Deployment/Enhancing Shareholder Value

In 2017, we increased our quarterly common dividend by \$0.01 to \$0.11 per share, and paid a \$0.03 special dividend in the 4th quarter. We did not repurchase any common stock in 2017, but have approximately \$31.5 million left in our current share repurchase program authorization that continues through December 31, 2018.

Looking Ahead

Our mission is to increase shareholder value and enrich the communities we serve by caring, listening, understanding and delivering a consistently superior customer experience. Our strategic plan and related goals and objectives are guided by this mission. As a shareholder, it is important that you know the goals and objectives that your senior management team seeks to accomplish in 2018. They are:

- Investing in talent for targeted business units and markets;
- Investing in digital capabilities and broader technology initiatives to enhance the customer experience and gain efficiencies;
- Optimizing our customer delivery channels, including the process of redesigning of our branch network;
- Promoting home ownership to low- and moderate-income and minority individuals through our Fulton Forward™ initiative;
- Preparing for the planned consolidation of our affiliate banks;
- Continuing our disciplined expense control;
- Establishing the sustainability of the framework and processes we put in place to emerge from the remaining regulatory enforcement orders concerning our BSA/AML compliance program;
- Focusing on growth, efficiency and profitability to drive shareholder value.

Our Board of Directors and management team look forward to meeting with shareholders at Fulton's Annual Shareholders Meeting in Lancaster, Pennsylvania on Monday, May 21st at 10 a.m. Meeting registration materials have been mailed with hard copies of this report; they are also available online.

In closing, I want to again extend my gratitude for your continued confidence in Fulton. Please be assured that every member of our team is working hard to enhance the value of your investment.

Very truly yours,



E. Philip Wenger
Chairman and CEO

¹During the fourth quarter of 2017, an estimated \$15.6 million charge to income taxes was recorded related to the re-measurement of net deferred tax assets as a result of the enactment of the Tax Cuts and Jobs Act.

²Efficiency ratio is a non-GAAP financial measure. Please refer to the section entitled, "Supplemental Reporting of Non-GAAP Based Financial Measures," which appears in the Form 10-K that accompanies this letter for a reconciliation of this measure to the most comparable GAAP measures.

This letter contains forward-looking statements with respect to our financial condition, results of operations or business. 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. Do not unduly rely on forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties, some of which are beyond our control and ability to predict, that could cause actual results to differ materially from those expressed in the forward-looking statements.

A discussion of certain risks and uncertainties affecting us, and some of the factors that could cause our actual results to differ materially from those described in the forward-looking statements, can be found in the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2017, which accompanies this letter. We undertake 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.

SENIOR MANAGEMENT, DIRECTORS & ADVISORY BOARD MEMBERS

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Curtis J. Myers

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Financial Corporation and Fulton Bank

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Senior Executive Vice President/Strategic Initiatives
and Operations

Beth Ann L. Chivinski

Senior Executive Vice President/Chief Risk Officer

Mark R. McCollom

Senior Executive Vice President/Chief Financial
Officer

Meg R. Mueller

Senior Executive Vice President/Head of Commercial
Banking

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Senior Executive Vice President/Community Banking
of Fulton Financial Corporation and Chairman and
Chief Executive Officer of Fulton Bank

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Senior Executive Vice President/Chief Information
Officer

Angela M. Snyder

Senior Executive Vice President/Head of Consumer
Banking of Fulton Financial Corporation and
Chairwoman, President and Chief Executive Officer of
Fulton Bank of New Jersey

Daniel R. Stolzer

Senior Executive Vice President/Chief Legal Officer
and Corporate Secretary

Bernadette M. Taylor

Senior Executive Vice President/Chief Human
Resources Officer

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Ernest J. Waters

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Allen Weiss

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Gregory Snook
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Elizabeth M. Wright

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Donald S. Hicks
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Nancy R. Simperts
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FULTON FINANCIAL CORPORATION

P.O. Box 4887
One Penn Square
Lancaster, Pennsylvania 17604

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS TO BE HELD MONDAY, MAY 21, 2018 AT 10:00 A.M.

TO THE SHAREHOLDERS OF FULTON FINANCIAL CORPORATION:

NOTICE IS HEREBY GIVEN that, pursuant to the call of its Board of Directors, the Annual Meeting of the shareholders of FULTON FINANCIAL CORPORATION (“Fulton”) will be held on Monday, May 21, 2018, at 10:00 a.m., at the Lancaster Marriott at Penn Square, 25 South Queen Street, Lancaster, Pennsylvania, for the purpose of considering and voting upon the following matters:

1. ELECTION OF DIRECTORS. The election of twelve (12) director nominees to serve for one-year terms;
2. EXECUTIVE COMPENSATION PROPOSAL. A non-binding say on pay (“Say-on-Pay”) resolution to approve the compensation of the named executive officers for 2017;
3. RATIFICATION OF INDEPENDENT AUDITOR. The ratification of the appointment of KPMG LLP as Fulton’s independent auditor for the fiscal year ending December 31, 2018; and
4. OTHER BUSINESS. Such other business as may properly be brought before the meeting and any adjournments thereof.

Only those shareholders of record at the close of business on February 28, 2018, shall be entitled to be given notice of, to attend and to vote at the meeting. Please take a moment now to cast your vote over the Internet or by telephone in accordance with the instructions set forth on the enclosed proxy card, or, alternatively, if you received paper copies of the Proxy Statement and proxy card, to complete, sign and date the enclosed proxy card and return it in the postage-paid envelope provided. Shareholders attending the Annual Meeting in person may vote in person, even if they have previously voted by proxy.

Voting via the Internet or by telephone is fast and convenient, and your vote is immediately tabulated and confirmed. Your Proxy is revocable and may be withdrawn at any time before it is voted at the meeting. **You are cordially invited to attend the meeting. If you plan on attending, please RSVP that you will attend by returning the Annual Meeting Reservation Form enclosed or print and return the form posted at www.proxyvote.com.**

A copy of Fulton’s Annual Report on Form 10-K accompanies this Proxy Statement.

Sincerely,



Daniel R. Stolzer
Corporate Secretary

Enclosures
April 3, 2018

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PROXY STATEMENT

Dated and To Be Mailed on or about: April 3, 2018

FULTON FINANCIAL
CORPORATION

**P.O. Box 4887, One Penn Square
Lancaster, Pennsylvania 17604
(717) 291-2411**






ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 21, 2018 AT 10:00 A.M.

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ANNUAL MEETING SUMMARY

<p>When and Where</p>	<p>The Annual Meeting of the shareholders of Fulton (the “Annual Meeting”) will be held on Monday, May 21, 2018, at 10:00 a.m., at the Lancaster Marriott at Penn Square, 25 South Queen Street, Lancaster, Pennsylvania. The Board of Directors has approved an agenda consisting of four proposals for the Annual Meeting, as described in the meeting notice and in more detail in this document.</p>			
<p>Matters to be Voted on and Vote Recommendations</p>	<p><u>Proposal 1 (Page 9)</u> The <u>election of the twelve (12) director nominees</u> identified in this Proxy Statement.</p>		<p><u>Proposal 2 (Page 57)</u> The <u>approval of the non-binding Say-on-Pay resolution</u> to approve the compensation of the named executive officers for 2017.</p>	
	<p><u>Proposal 3 (Page 59)</u> The ratification of the <u>appointment of KPMG LLP</u> as Fulton’s independent auditor for the fiscal year ending December 31, 2018.</p>			
	<p>The Board of Directors recommends that shareholders vote <u>FOR</u> the election of each of the twelve (12) director nominees identified in this Proxy Statement, <u>FOR</u> the approval of the non-binding Say-on-Pay resolution to approve the compensation of the named executive officers for 2017, and <u>FOR</u> the ratification of the appointment of KPMG LLP as Fulton’s independent auditor for the fiscal year ending December 31, 2018.</p>			
<p>How to Vote Your Shares</p>	<p> You can vote your shares via the Internet by visiting www.proxyvote.com and entering your control number.</p>	<p> You can vote your shares by telephone by calling 1-800-690-6903 and using your control number.</p>	<p> If you received a paper copy of the Proxy Statement, you can vote your shares by signing and returning your proxy card by U.S. mail.</p>	<p> You can vote <u>in person at the Annual Meeting</u> with your proxy card or legal proxy if shares are held in street name. (See Voting Shares Held in Street Name on Page 4 for more information).</p>
<p>Electronic Delivery</p>	<p> If you would like to save paper and reduce the costs incurred by Fulton in printing and mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please go to www.proxyvote.com and have your proxy card and control number in hand when you access the website, then follow the instructions at www.proxyvote.com to obtain your records and to create an electronic voting instruction form. Follow the instructions for voting by Internet and, when prompted, indicate that you agree to receive or access shareholder communications electronically in future years.</p>			

GENERAL INFORMATION

Introduction

Fulton, a Pennsylvania business corporation and registered financial holding company, was organized pursuant to a plan of reorganization adopted by Fulton Bank and implemented on June 30, 1982. On that date, Fulton Bank became a wholly owned subsidiary of Fulton, and the shareholders of Fulton Bank became shareholders of Fulton. Since that time, Fulton has acquired other banks (some of which have since been merged together), Fulton Bank adopted a national charter, and today Fulton owns the following community banks: FNB Bank, N.A., Fulton Bank, N.A., Fulton Bank of New Jersey, Lafayette Ambassador Bank, Swineford National Bank and The Columbia Bank.

In addition, Fulton has several other direct subsidiaries, including: Fulton Insurance Services Group, Inc. (which engages in the sale of various life insurance products); Fulton Financial Realty Company (which owns or leases certain properties on which branch and operational facilities are located); Central Pennsylvania Financial Corp. (which owns, directly or indirectly, certain limited partnership and limited liability company interests, principally in low- to moderate-income housing developments); and FFC Management, Inc. (which holds certain investment securities and other passive investments).

RSVP, Date, Time and Place of Meeting

The Annual Meeting will be held on Monday, May 21, 2018, at 10:00 a.m., at the Lancaster Marriott at Penn Square, 25 South Queen Street, Lancaster, Pennsylvania.

You are cordially invited to attend the Annual Meeting. In order for Fulton to plan and prepare for the proper number of shareholders, if you plan on attending, **please RSVP and confirm that you will attend by completing and returning the Annual Meeting Reservation Form enclosed. If you received a Notice of Internet Availability of Proxy Materials, or if you requested proxy materials by email, please print and return the Annual Meeting Reservation Form posted at www.proxyvote.com if you plan to attend the Annual Meeting. Light refreshments will be available starting at 9:00 a.m., and the business meeting will start promptly at 10:00 a.m.**

Shareholders are encouraged to arrive early. Public parking is available in downtown Lancaster. For a list of parking locations, please consult the Lancaster Parking Authority website at www.lancasterparkingauthority.com, or consult the information in the Annual Meeting Invitation and Reservation Form. Each shareholder may be asked to present valid photo identification, such as a driver's license, and proof of share ownership, as of February 28, 2018, such as a copy of a brokerage statement or a copy of your ballot. Large bags, cameras, cell phones, recording devices and other electronic devices will not be permitted at the Annual Meeting, and individuals not complying with this request are subject to dismissal from the Annual Meeting. In the event of an adjournment, postponement or emergency that may change the Annual Meeting's time, date, or location, Fulton will make an announcement, issue a press release or post information at www.fult.com to notify shareholders, as appropriate. The contents of our website are not incorporated into this Proxy Statement and should not be considered part of this document.

Shareholders Entitled to Vote and Attend Meeting

Attendance at the Annual Meeting will be limited to shareholders of record at the close of business on February 28, 2018 (the "Record Date"), their authorized representatives and guests of Fulton. Only those shareholders of record as of the Record Date shall be entitled to receive notice of, attend and vote at the Annual Meeting.

Purpose of Meeting

Fulton shareholders will be asked to consider and vote upon the following matters at the Annual Meeting: (i) the election of twelve (12) director nominees to serve for one-year terms; (ii) the non-binding Say-on-Pay resolution to approve the compensation of the named executive officers for 2017; (iii) the ratification of the appointment of KPMG LLP as Fulton's independent auditor for the fiscal year ending December 31, 2018; and (iv) such other business as may be properly brought before the Annual Meeting and any adjournments thereof.

Solicitation of Proxies

This Proxy Statement is furnished in connection with the solicitation of proxies, in the accompanying form, by the Board of Directors of Fulton for use at the Annual Meeting to be held at 10:00 a.m. on Monday, May 21, 2018, and any adjournments or postponements thereof. Fulton is making this solicitation and will pay the entire cost of preparing, assembling, printing, mailing and distributing the notices and these proxy materials and soliciting votes. In addition to the mailing of the notices and these proxy materials, the solicitation of proxies or votes may be made in person, by mail, telephone or by electronic communication by Fulton's directors, officers and employees, who will not receive any additional compensation for such solicitation activities. Fulton has engaged Laurel Hill Advisory Group, LLC to aid in the solicitation of proxies in order to assure a sufficient return of votes on the proposals to be presented at the Annual Meeting. The fee for such services is estimated at \$7,500, plus reimbursement for reasonable research, distribution and mailing costs.

Arrangements will be made with brokerage houses and other custodians, nominees and fiduciaries for the forwarding of solicitation material to the beneficial owners of stock held of record by such persons, and Fulton will reimburse them for reasonable out-of-pocket expenses incurred by them in connection with such activities.

Revocability and Voting of Proxies

The execution and return of the enclosed proxy card, or voting by another method, will not affect a shareholder's right to attend the Annual Meeting and to vote in person. A shareholder may revoke any proxy given pursuant to this solicitation by delivering written notice of revocation to the Corporate Secretary or Assistant Corporate Secretary of Fulton, sending a new proxy card at any time before the shares are voted by the proxy at the Annual Meeting, or by voting by another method at any time before the applicable deadline for voting set forth on the proxy card. Unless revoked, any proxy given pursuant to this solicitation will be voted at the Annual Meeting, including any adjournment or postponement thereof, in accordance with the written instructions of the shareholder giving the proxy. In the absence of specific voting instructions, all proxies will be voted **FOR** the election of each of the twelve (12) director nominees identified in this Proxy Statement, **FOR** the approval of the non-binding Say-on-Pay resolution to approve the compensation of the named executive officers for 2017, and **FOR** the ratification of the appointment of KPMG LLP as Fulton's independent auditor for the fiscal year ending December 31, 2018. Although the Board of Directors knows of no other business to be presented, in the event that any other matters are properly brought before the Annual Meeting, any proxy given pursuant to this solicitation will be voted in the discretion of the proxyholders named on the Proxy Card, as permitted by Rule 14a-4(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). If you are a registered shareholder of record who holds stock in certificates or book entry with Fulton's transfer agent and you do not cast your vote, no votes will be cast on your behalf on any of the items of business at the Annual Meeting.

Shares held for the account of shareholders who participate in the Dividend Reinvestment and Stock Purchase Plan and for the account of employees, and former employees, who participate in the Employee Stock Purchase Plan (the "ESPP") will be voted in accordance with the instructions of each shareholder as set forth in his or her proxy. If a shareholder who participates in these plans does not return a proxy, the shares held for the shareholder's account will not be voted.

Shares held for the account of employees, and former employees, of Fulton and its subsidiaries who participate in the Fulton Financial Common Stock Fund of the Fulton Financial Corporation 401(k) Retirement Plan (the "401(k) Plan"), will be voted by Fulton Financial Advisors ("FFA"), a division of Fulton Bank, N.A., as plan trustee ("Plan Trustee") in accordance with the instructions of each participant as set forth in the proxy card sent to the participant with respect to such shares. To allow sufficient time for the Plan Trustee to vote, participants' voting instructions must be received by May 16, 2018.

Each participant in the 401(k) Plan (or the beneficiary of a deceased participant) is entitled to direct the Plan Trustee how to vote shares of common stock of Fulton which are allocated to his or her account under the 401(k) Plan on any matter on which other holders of Fulton's common stock are entitled to vote. If no direction is given, then the 401(k) Plan shares will not be voted by the Plan Trustee. The Plan Trustee has established procedures that are designed to safeguard the confidentiality of information about each 401(k) Plan participant's purchase, holding, sale and voting of the common stock. If a 401(k) Plan participant has questions about these procedures or concerns about the confidentiality of this information, please contact the Retirement Plan Administrative Committee and direct the inquiry to Fulton Financial Corporation, Attn: RPAC – Benefits, P.O. Box 4887, One Penn Square, Lancaster, PA 17604.

Voting Shares Held in Street Name

If you hold shares in street name with a bank or broker, it is important that you instruct your bank or broker how to vote your shares if you want your shares to be voted on the election of directors (Proposal 1 of this Proxy Statement) and on the non-binding Say-on-Pay resolution to approve the compensation of the named executive officers for 2017 (Proposal 2 of this Proxy Statement). If you hold your shares in street name and you do not instruct your bank or broker how to vote your shares in the election of directors or any non-routine matters, such as Proposal 2 of this Proxy Statement, no votes will be cast on your behalf for the election of directors or Proposal 2. Your bank or broker will, however, continue to have discretion to vote any uninstructed shares on the ratification of the appointment of Fulton's independent auditor (Proposal 3 of this Proxy Statement) and other matters that your bank or broker considers routine. If you hold shares in street name with a bank or broker and you wish to vote your shares in person at the Annual Meeting, you will need to obtain a "legal proxy" from your bank or broker authorizing you to vote the shares at the Annual Meeting.

Voting of Shares and Principal Holders Thereof

At the close of business on the Record Date, Fulton had 175,342,465 shares of common stock outstanding and entitled to vote. There is no other class of capital stock outstanding. As of the Record Date, 3,792,896 shares of Fulton common stock were held by FFA, as the Plan Trustee, or in a fiduciary capacity for fiduciary accounts. The shares held in this manner, in the aggregate, represent approximately 2.16% of the total shares outstanding. Shares that are held in the applicable plan are voted by the beneficiaries. Shares for which FFA serves as a co-fiduciary will be voted by the co-fiduciary, unless the co-fiduciary declines to accept voting responsibility, in which case, FFA will vote to abstain on all proposals. Shares for which FFA serves as sole trustee of a revocable trust, shares for which FFA acts as agent for an investment management account, and shares for which FFA acts as custodian for a custodial account, are voted by the settlor of the revocable trust and the principal of the agency or custodial account unless the governing document provides for FFA to vote the shares, in which case FFA will vote to abstain on all proposals. Shares for which FFA is acting as sole trustee of an irrevocable trust or as guardian of the estate of a minor or an incompetent person are voted by FFA, and in such cases, FFA will vote to abstain on all proposals.

The holders of a majority of the outstanding common stock present in person or by proxy at the Annual Meeting constitute a quorum for the conduct of business. The judge of election will treat shares of Fulton common stock represented by a properly signed and returned proxy which casts a vote on any matter, other than a procedural matter, as present at the Annual Meeting for purposes of determining a quorum, without regard to whether the proxy is marked or designated as casting a vote or abstaining on a particular matter. Likewise, the judge of election will treat shares of common stock represented by broker non-votes as present for purposes of determining a quorum if such shares have been voted on any matter other than a procedural matter.¹

Each share is entitled to one vote on all matters submitted to a vote of the shareholders. A majority of the votes cast at a meeting at which a quorum is present is required in order to approve any matter submitted to a vote of the shareholders, except for the election of directors, or in cases where the vote of a greater number of shares is required by law or under Fulton's Articles of Incorporation or Bylaws.

In the case of the election of directors, the twelve (12) candidates receiving the highest number of votes cast at the Annual Meeting shall be elected to the Board of Directors for terms of one (1) year. Assuming the presence of a quorum, the affirmative vote of a majority of the votes cast is required for approval of the non-binding Say-on-Pay resolution to approve the compensation of the named executive officers for 2017 and the ratification of Fulton's independent auditor.

¹ Broker non-votes are shares of common stock held in record name by brokers or nominees as to which (i) instructions have not been received from the beneficial owners or persons entitled to vote; and (ii) the broker or nominee does not have discretionary voting power to vote such shares on a particular proposal.

Abstentions and broker non-votes (provided, in the case of broker non-votes, such non-votes represent shares that have been voted on any matter other than a procedural matter) will be counted as shares that are present at the Annual Meeting for determining the presence of a quorum, but will not be counted as votes cast on the election of directors, the non-binding Say-on-Pay resolution to approve the compensation of the named executive officers for 2017, or the ratification of Fulton’s independent auditor. Because abstentions and broker non-votes are not counted as votes cast, they will have no effect on the election of directors, the non-binding Say-on-Pay resolution concerning executive compensation or the ratification of Fulton’s independent auditor.

To the knowledge of Fulton, on the Record Date, no person or entity owned of record, or beneficially, more than 5% of the outstanding common stock of Fulton, except those listed on Page 16 under “Security Ownership of Directors, Nominees, Management and Certain Beneficial Owners.”

Internet Availability of Proxy Materials

**Important Notice Regarding the Availability of Proxy Materials
for the Annual Meeting to be Held on May 21, 2018**

In accordance with the rules of the Securities and Exchange Commission (the “SEC”), Fulton is advising its shareholders that Fulton is furnishing proxy materials (i.e., this Proxy Statement, 2017 Annual Report on Form 10-K and proxy card) to some of Fulton’s shareholders on the Internet at www.proxyvote.com rather than mailing paper copies of the materials to those shareholders. As a result, some shareholders will receive a Notice of Internet Availability of Proxy Materials and other shareholders will receive paper copies of this Proxy Statement, the 2017 Annual Report on Form 10-K and proxy card. The Notice of Internet Availability of Proxy Materials contains instructions on how to access this Proxy Statement, the 2017 Annual Report on Form 10-K and proxy card over the Internet, instructions on how to vote shares, as well as instructions on how to request a paper copy of the proxy materials, if shareholders so desire. Fulton believes electronic delivery should expedite the receipt of materials, significantly lower costs and help to conserve natural resources.

Whether shareholders receive the Notice of Internet Availability of Proxy Materials or paper copies of the proxy materials, the Proxy Statement, the 2017 Annual Report on Form 10-K, the proxy card and any amendments to the foregoing materials that are required to be furnished to shareholders, are available for review online at www.proxyvote.com.

This Proxy Statement and our 2017 Annual Report on Form 10-K also are available in the Investor Relations section of Fulton’s website at www.fult.com. Shareholders may access this material by choosing the “Investor Relations” tab at the top of the page, and then “SEC Filings” from the items listed in the Investor Relations section.

Recommendation of the Board of Directors

The Board of Directors recommends that shareholders vote FOR the election of each of the twelve (12) director nominees identified in this Proxy Statement, FOR the approval of the non-binding Say-on-Pay resolution to approve the compensation of the named executive officers for 2017, and FOR the ratification of the appointment of KPMG LLP as Fulton’s independent auditor for the fiscal year ending December 31, 2018.

Shareholder Proposals

Under SEC rules, shareholder proposals intended to be considered for inclusion in Fulton’s Proxy Statement and form of proxy for the 2019 Annual Meeting must be received at the principal executive offices of Fulton at One Penn Square, Lancaster, Pennsylvania no later than December 4, 2018. In addition, any shareholder proposal not received at Fulton’s principal executive offices by February 17, 2019, which is forty-five (45) calendar days before the one (1) year anniversary of the date Fulton released the previous year’s annual meeting Proxy Statement to shareholders, will be considered untimely and, if presented at the 2019 Annual Meeting, the proxy holders will be able to exercise discretionary authority in voting on any such proposal to the extent authorized by Rule 14a-4(c) under the Exchange Act. All shareholder proposals must comply with Rule 14a-8 under the Exchange Act, as well as Fulton’s Bylaws.

Generally, under applicable SEC rules, a shareholder may not submit more than one proposal, and the proposal, including any accompanying supporting statement, may not exceed 500 words. In order to be eligible to submit a proposal, a shareholder must have continuously held at least \$2,000 in market value of Fulton common stock for at least one year before the date the proposal is submitted. Any shareholder submitting a shareholder proposal to Fulton must also provide Fulton with a written statement verifying ownership of stock and confirming the shareholder's intention to continue to hold the stock through the date of the 2019 Annual Meeting. The shareholder, or a qualified representative, must attend the 2019 Annual Meeting in person to present the proposal. The shareholder must also continue to hold the applicable amount of Fulton common stock through the date of the 2019 Annual Meeting.

Contacting the Board of Directors

Any shareholder of Fulton who desires to contact the Board of Directors may do so by writing to: Board of Directors, Fulton Financial Corporation, P.O. Box 4887, One Penn Square, Lancaster, PA 17604. These written communications will be provided to the Chair of the Executive Committee of the Board of Directors who will determine further distribution based on the nature of the information in the communication. For example, communications concerning accounting, internal accounting controls or auditing matters will be shared with the Chair of the Audit Committee of the Board of Directors.

Code of Conduct

Fulton's Code of Conduct (the "Code of Conduct") governs the conduct of its directors, officers and employees. Fulton provides the Code of Conduct to each director, officer and employee when starting their position, and they are required to annually acknowledge their review of the Code of Conduct. The Code of Conduct was last updated in 2016, after a review by the Nominating and Corporate Governance Committee. Fulton's employees and directors are expected to recognize and avoid conflicts of interest situations in which personal interest or relationships interfere with, might interfere with, or appear to interfere with, their responsibilities to Fulton. A current copy of the Code of Conduct can be obtained, without cost, by writing to the Corporate Secretary at: Fulton Financial Corporation, P.O. Box 4887, One Penn Square, Lancaster, PA 17604. The current Code of Conduct, future amendments and any waivers are also posted and available on Fulton's website at www.fult.com.

Corporate Governance Guidelines

Fulton has adopted Corporate Governance Guidelines (the "Governance Guidelines") that include guidelines and Fulton's policy regarding the following topics: (1) the size of the Board of Directors; (2) director qualifications; (3) a majority vote standard; (4) service on other boards and director change in status; (5) meeting attendance and review of meeting materials; (6) director access to management and independent advisors; (7) designation of a Lead Director; (8) executive sessions; (9) Chief Executive Officer ("CEO") evaluation and succession planning; (10) Board of Directors and committee evaluations; (11) stock ownership guidelines; (12) communications by interested parties; (13) Board of Directors and committee minutes; (14) Codes of Conduct; and (15) disclosure and update of the Governance Guidelines.

On December 19, 2017, Fulton amended the Governance Guidelines to increase the stock ownership guidelines for Fulton's Chief Executive Officer from a multiple of two times to three times the Chief Executive Officer's annual base salary. A copy of the current Governance Guidelines can be obtained, without cost, by writing to the Corporate Secretary at: Fulton Financial Corporation, P.O. Box 4887, One Penn Square, Lancaster, PA 17604. The Governance Guidelines are also posted and available on Fulton's website at www.fult.com.

SELECTION OF DIRECTORS

General Information

The Bylaws of Fulton provide that the Board of Directors shall consist of at least five (5) but not more than thirty-five (35) persons, and that the Board of Directors shall, from time to time, determine the number of directors. The Board of Directors has, by resolution, fixed the number of the Board of Directors at twelve (12). Pursuant to Fulton's Bylaws, as amended, all nominees elected to the Board of Directors are elected for one-year terms.

A majority of the Board of Directors may increase or decrease the number of directors between meetings of the shareholders. Any vacancy occurring in the Board of Directors, whether due to an increase in the number of directors, resignation, retirement, death or any other reason may be filled by appointment by the remaining directors. Any director who is appointed to fill a vacancy shall hold office until the next Annual Meeting of the shareholders and until a successor is elected and shall have qualified.

Fulton's Bylaws limit the age of director nominees, and no person may be nominated for election as a director who will attain the age of seventy-two (72) years on or before the date of the Annual Meeting at which he or she is to be elected. In addition, Fulton has adopted a Voluntary Resignation Policy, last amended in January 2014, for directors that generally requires a director to tender his or her resignation when the director's effectiveness as a member of the Board of Directors may be substantially impaired. Circumstances that require a resignation to be submitted include, but are not limited to: (i) a director failing to attend at least 62.5% of meetings of the Board of Directors or its committees without a valid excuse; (ii) unless such an event is promptly cured to the satisfaction of Fulton, any extension of credit by any of Fulton's subsidiary banks for which the director or a related interest of the director is an obligor or guarantor is: a) classified by Fulton as nonaccrual, sixty (60) or more days past due, or restructured; b) assigned a risk rating of "substandard" or less; or c) not in material compliance with Board of Governors of the Federal Reserve System's Regulation O (12 C.F.R. Part 215) ("Regulation O"); or (iii) a nominee for director does not receive a majority of the votes cast in an uncontested election for the Board of Directors. While the policy sets forth events which might cause a director to tender his or her resignation, it also directs Fulton's Board of Directors to consider carefully, on a case-by-case basis, whether or not Fulton should accept such a resignation.

Majority Vote Standard

In January 2014, Fulton's Nominating and Corporate Governance Committee recommended, and the Board of Directors adopted, a majority vote standard for uncontested director elections by revising the Governance Guidelines and the Voluntary Resignation Policy for directors. In an uncontested election for the Board of Directors at a Fulton annual meeting of shareholders, any nominee for director who does not receive a majority of the votes cast is required to promptly tender his or her resignation following certification of the shareholder vote. As further described in the Governance Guidelines, the Nominating and Corporate Governance Committee shall consider the resignation tendered and recommend to the Board of Directors whether to accept it.

Procedure for Shareholder Nominations

Section 3 of Article II of Fulton's Bylaws requires shareholder nominations of director candidates to be made in writing and delivered or mailed to the Chairman of the Board or the Corporate Secretary not less than the earlier of (a) one hundred twenty (120) days prior to any meeting of shareholders called for the election of directors or (b) the deadline for submitting shareholder proposals for inclusion in a Proxy Statement and form of proxy as calculated under Rule 14a-8(e) promulgated by the SEC under the Exchange Act. For the 2019 Annual Meeting, this deadline date is December 4, 2018. Further, the notice to the Chairman of the Board or the Corporate Secretary of a shareholder nomination shall set forth: (i) the name and address of the shareholder who intends to make the nomination and a representation that the shareholder is a holder of record of stock of Fulton entitled to vote at such meeting and intends to be present in person or by proxy at such meeting to nominate the person or persons to be nominated; (ii) the name, age, business address and residence address of each nominee proposed in such notice; (iii) the principal occupation or employment of each such nominee; (iv) the number of shares of capital stock of Fulton that

are beneficially owned by each such nominee; (v) a statement of qualifications of the proposed nominee and a letter from the nominee affirming that he or she will agree to serve as a director of Fulton, if elected by the shareholders; (vi) a description of all arrangements or understandings between the shareholder submitting the notice and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; and (vii) such other information regarding each nominee proposed by the shareholder as would have been required to be included in the Proxy Statement filed pursuant to the proxy rules of the SEC had each nominee been nominated by or at the direction of the Board of Directors. The chairman of the meeting shall determine whether nominations have been made in accordance with the requirements of the Bylaws and, if the chairman determines that a nomination is defective, the nomination and any votes cast for the nominee shall be disregarded. Shareholder nominees are subject to the same standard of review as nominees of Fulton's Board of Directors or its Nominating and Corporate Governance Committee.

Director Qualifications and Board Diversity

In considering any individual nominated for membership on the Board of Directors, including those nominated by a shareholder, Fulton considers a variety of factors, including whether the candidate is recommended by executive management, the individual's professional and personal qualifications, including business experience, education and community and charitable activities, the individual's familiarity with one or more of the communities in which Fulton is located or is seeking to locate, and the diversity the individual may provide to the Board of Directors and its committees. Fulton does not have a separate written policy regarding how diversity is to be considered in the director nominating process. Generally, however, Fulton takes into account diversity in business experience, community service, skills, professional background and other qualifications, as well as diversity in race, national origin and gender, in considering individual candidates. Fulton's Governance Guidelines provide that Fulton's Board of Directors should be sufficient in size to achieve diversity in business experience, community service and other qualifications among non-employee directors while still facilitating substantive discussions in which each director can participate meaningfully. In 2004, the Board of Directors formed the Nominating and Corporate Governance Committee of the Board of Directors, whose members are independent in accordance with the NASDAQ listing standards. The charter for the Nominating and Corporate Governance Committee is posted and available on Fulton's website at www.fult.com. The Nominating and Corporate Governance Committee is responsible for the Governance Guidelines and for recommending director nominees to the Board of Directors. The Nominating and Corporate Governance Committee also considers nominees for director that are recommended by various persons or entities, including, but not limited to, non-management directors, Fulton's Chief Executive Officer, other senior officers and third parties. Information on the experience, qualifications, attributes or skills of Fulton's director nominees is described under "Director Nominee Biographical Information" below.

ELECTION OF DIRECTORS – PROPOSAL ONE

General Information

For the 2018 Annual Meeting, the Board of Directors has fixed the number of directors at twelve (12). Pursuant to Fulton’s Bylaws, as amended, nominees to the Board of Directors are elected for one-year terms. The Board of Directors has nominated the following twelve (12) persons for election to the Board of Directors for a term of one year:

2018 Director Nominees

Lisa Crutchfield	Denise L. Devine	Patrick J. Freer
George W. Hodges	Albert Morrison III	James R. Moxley III
R. Scott Smith, Jr.	Scott A. Snyder	Ronald H. Spair
Mark F. Strauss	Ernest J. Waters	E. Philip Wenger

Each of the above director nominees is presently a director of Fulton. Following the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors approved the nomination of the above individuals. However, in the event that any of the foregoing 2018 director nominees are unable to accept nomination or election, any proxy given pursuant to this solicitation will be voted in favor of such other persons as the Board of Directors may recommend. The Board of Directors has no reason to believe that any of its director nominees will be unable to accept nomination or to serve as a director, if elected at the Annual Meeting.

Vote Required

The twelve (12) candidates receiving the highest number of votes cast at the Annual Meeting shall be elected to the Board of Directors. Abstentions and broker non-votes will be counted as shares that are present at the Annual Meeting, but will not be counted as votes cast in the election of directors. As described under Majority Vote Standard on Page 7, in an uncontested election of directors, the Governance Guidelines require any nominee for director who does not receive a majority of the votes cast to promptly tender his or her resignation following certification of the shareholder vote.

Recommendation of the Board of Directors

The Board of Directors recommends that shareholders vote FOR the election of each of the twelve (12) director nominees identified in this Proxy Statement to serve for one-year terms.

Information about Nominees, Directors and Independence Standards

Information concerning the experience, qualifications, attributes or skills of the twelve (12) persons nominated by Fulton for election to the Board of Directors at the 2018 Annual Meeting is set forth below, including whether they were determined by the Board of Directors to be independent for purposes of the NASDAQ listing standards.

Fulton is a NASDAQ listed company and follows the NASDAQ listing standards for Board of Directors and committee independence. The Board of Directors determined that eleven (11) of Fulton’s twelve (12) director nominees are independent, as defined in the applicable NASDAQ listing standards. Specifically, the Board of Directors found that Directors Crutchfield, Devine, Freer, Hodges, Morrison, Moxley, Smith, Snyder, Spair, Strauss and Waters met the definition of independent director in the NASDAQ listing standards and that each of these directors is free of any relationships that would interfere with his or her individual exercise of independent judgment. In addition, members of the Audit Committee and the Human Resources Committee (the “HR Committee”) of the Board of Directors meet the requirements for independence under the NASDAQ listing standards, and the rules and regulations of the SEC for service on the Audit Committee or the HR Committee, as applicable. In reviewing director independence, the Board of Directors considered the relationships and other arrangements, if any, of each director. The other types of relationships and transactions that were reviewed and considered are more fully described in “Related Person Transactions” on Page 22.

Director Nominee Biographical Information

The following information regarding each director nominee's background, experience, qualifications, attributes or skills represents the information that led Fulton to conclude that these persons should be nominated to serve as a director of Fulton.

LISA CRUTCHFIELD (Independent Director)



Age: 55

Fulton Director since: 2014

Committees:

- Executive - Member
- Nominating and Corporate Governance - Chair
- Risk - Member

Ms. Crutchfield has been the managing principal of Hudson Strategic Advisers LLC, an economic analysis and strategic advisory firm to energy companies, financial services companies and governmental agencies, since 2016. From September of 2013 to August 2016, Ms. Crutchfield led the CEO Council for Growth. Prior to her role at the CEO Council, she served as executive vice president, chief regulatory and compliance officer for National Grid USA from 2008 to 2011. In this role, Ms. Crutchfield also served as a non-independent director on the board of National Grid USA. Additionally, she has held leadership roles with PECO Energy Company, TIAA-CREF and Duke Energy. From 1993 to 1997, she was appointed to serve as vice chairman of the Pennsylvania Public Utility Commission. Ms. Crutchfield has been a director of Unifil Corporation (NYSE:UTL) from 2012 to present. In 2017 she also joined the board of The Main Street America Group, a national property and casualty mutual insurance company. Ms. Crutchfield is a graduate of Yale University with a B.A. in economics and political science. She is also a graduate of the Harvard School of Business and holds a M.A. of Business Administration, with distinction in finance.

Ms. Crutchfield brings more than 20 years of experience leading corporate teams and has extensive knowledge of the financial industry and business practices with expertise in risk mitigation, compliance and regulatory matters.

DENISE L. DEVINE (Independent Director)



Age: 62

Fulton Director since: 2012

Committees:

- Audit - Member and financial expert
- Executive - Member
- Human Resources - Chair

Ms. Devine is the founder and since 2014 has served as the Chief Executive Officer of FNB Holdings, LLC, a company dedicated to initiatives in the health and wellness space. Ms. Devine was also founder and Chief Executive Officer of Nutripharm, Inc., a company that has generated a portfolio of composition and process patents to create innovative natural food, beverage, pharmaceutical and nutraceutical products that facilitate nutrition and lifelong health. Ms. Devine, a certified public accountant, also previously served as Chief Financial Officer for Energy Solutions International and in financial management positions for Campbell Soup Company. Ms. Devine has served as Chair of the Pennsylvania State Board of Accountancy and on the Board of the American Institute of CPAs. Ms. Devine was a member of the Board of Trustees of Villanova University from 2005 to 2015, where she was the Chair of the Audit and Risk Committee. She has also served as a member of the Board of Trustees of Lourdes Health System since 2010 and was appointed to the Board of Ben Franklin Technology Partners of Southeastern Pennsylvania in 2016. In February 2018, Ms. Devine became a director of AgroFresh Solutions, Inc. (NASDAQ: AGFS).

Ms. Devine has substantial management, business and finance experience, which adds valuable outside experience to Fulton's Board of Directors and its committees. She has completed courses and was recognized by the National Association of Corporate Directors ("NACD") as a Board Leadership Fellow since 2015. She received an MBA from the Wharton School of the University of Pennsylvania, an M.S. in Taxation from Villanova Law School, and a B.S. in Accounting from Villanova University, where she graduated first in her class.

PATRICK J. FREER (Independent Director)



Mr. Freer was a director of Lebanon Valley Farmers Bank, formerly known as Farmers Trust Bank, from 1980 until it was combined with Fulton Bank in 2007. He has been employed by Strickler Insurance Agency, Inc. (insurance broker) since 1974 and has been the President, since 1998, and is currently the Chairman. Mr. Freer is a Certified Insurance Counselor.

Mr. Freer brings to the Fulton Board of Directors an extensive knowledge of insurance, investments, finance and risk management, as well as valuable knowledge of Fulton through his tenure of more than twenty one (21) years on its Board of Directors and as a bank director from 1980 to 2007. Mr. Freer has long been an active member in his community, helping with numerous capital campaigns and community projects. Mr. Freer has been a board member of the American Cancer Society, Lebanon County Economic Development Authority, Center of Lebanon Association and the Lebanon County Mental Health Association and has served as past president of the Lebanon County Christian Ministries and the Lebanon Valley Sertoma Club.

Age: 68

Fulton Director since: 1996

Committees:

- Human Resources - Member
- Nominating and Corporate Governance Committee - Vice Chair

GEORGE W. HODGES (Independent Director and Lead Director)



Mr. Hodges currently serves as Lead Director of Fulton and was a director of Drovers & Mechanics Bank, until it was merged into Fulton Bank in 2001, and has served on the Board of Directors of Fulton Bank since 2012. He has been a director of York Water Company (NASDAQ:YORW) from 2000 to present and served as Chairman since 2011, director of The Wolf Organization, Inc. from 2008 to 2015 (regional distributor and sourcing company of kitchen and bath products and specialty building products), a director of Burnham Holdings, Inc. from 2006 to present, the parent company of fourteen subsidiaries that are leading domestic manufacturers of boilers and related HVAC products and accessories (including furnaces, radiators and air conditioning systems), for residential, commercial and industrial applications, and has served on the boards of various for profit, non-profit and community organizations. Mr. Hodges served as non-executive Chairman of the Board of The Wolf Organization from 2008 to 2009. Prior to being Chairman, Mr. Hodges was a member of the Office of the President of The Wolf Organization from 1986 to 2008.

Mr. Hodges brings considerable financial expertise and business knowledge to the Fulton Board of Directors, both through his business experience and his service on other boards, and has completed the requirements for the NACD Board Leadership Fellow Program since 2012.

Age: 67

Fulton Director since: 2001

Committees:

- Audit - Member and financial expert
- Executive - Chair
- Human Resources - Member

ALBERT MORRISON III (Independent Director)



Age: 71

Fulton Director since: 2012

Committees:

- Audit - Vice Chair and financial expert
- Risk Committee - Member
- Special Joint Board Compliance - Member

Since 2002, Mr. Morrison has served as the Chairman of the Board of Burnham Holdings, Inc., the parent company of fourteen subsidiaries that are leading domestic manufacturers of boilers and related HVAC products and accessories (including furnaces, radiators and air conditioning systems), for residential, commercial and industrial applications. Mr. Morrison was elected as a director of Burnham in 1986 and became President and Chief Executive Officer of Burnham in 1988. Mr. Morrison retired as Chief Executive Officer, effective in April 2012, after thirty-eight years of service with Burnham Holdings, Inc. He will also retire from the Burnham Holdings, Inc. board at the conclusion of his current three year term in April 2018.

As a long-time Chief Executive Officer and director of a manufacturing company, Mr. Morrison brings extensive business, financial, acquisition and human resources skills to Fulton's Board of Directors.

JAMES R. MOXLEY III (Independent Director)



Age: 57

Fulton Director since: 2015

Committees:

- Executive - Vice Chair
- Nominating and Corporate Governance - Member
- Risk - Chair
- Special Joint Board Compliance - Vice Chair

In addition to being a director of Fulton, Mr. Moxley has been a director of The Columbia Bank since 1999. He is admitted and licensed to practice law in Maryland and a former real estate attorney with Venable, Baetjer and Howard, now known as Venable LLP (law firm). Since 1992, Mr. Moxley has served as a Principal of Security Development Corporation (a Washington-Baltimore real estate land development company engaged primarily in retail and multifamily projects). He serves as Board Chair and has been a trustee of Glenelg Country School from 1996 to present. He has also served as a trustee of the Howard Hospital Foundation from 2014 to present, as a Founding Director of the Real Estate Charitable Foundation of Maryland from 2015 to present, and is active on numerous civic boards and committees in Maryland. Mr. Moxley received a J.D. degree and A.B. in Economics (magna cum laude) from Duke University.

Mr. Moxley brings banking expertise to Fulton's Board of Directors that he gained as a director of The Columbia Bank. He also has extensive business, tax, and legal experience related to the acquisition, financing, and development of commercial and residential real estate. Mr. Moxley's longstanding board service at Fulton's affiliate bank in Maryland also imparts corporate governance and supervisory skills.

R. SCOTT SMITH, JR. (Independent Director)



Mr. Smith is the retired Chairman of the Board and Chief Executive Officer of Fulton. He served as Chairman of the Board and CEO from January 2006 to December 2012 and also served as a director of Fulton Bank from 1993 to 2002. He was a director of The Federal Reserve Bank of Philadelphia from 2010 to 2013 and a member of the Federal Advisory Council to the Board of Governors of the Federal Reserve System from 2008 to 2010. Mr. Smith was a director of the American Bankers Association from 2006 to 2009, was employed by Fulton from 1978 to 2012 in various positions and worked in financial services since 1969. Since 2014, he served on the boards of IREX Corp. (a specialty contracting organization), and Herr Foods, Inc. (snack food manufacturer), and he continues to be active in the Lancaster community.

Age: 71

Fulton Director since: 2001

Committees:

- Risk - Member

Mr. Smith's various management roles during his over thirty years of service in banking give him a broad understanding of the financial services industry, Fulton's operations, corporate governance matters and leadership experience qualifying him to serve on Fulton's Board of Directors.

SCOTT A. SNYDER, PhD (Independent Director)



Dr. Snyder is currently a Partner at Heidrick Consulting leading the Digital Transformation and Innovation Offerings for the firm. He recently served as Senior Vice President, Managing Director, and Chief Technology and Innovation Officer from August 2016 until March 2018 for Safeguard Scientifics, Inc. (NYSE:SFE), a provider of capital and relevant expertise to fuel the growth of technology-driven businesses in healthcare, financial services and digital media. From 2011 until August of 2016, he served as the president and chief strategy officer of the Boston- and Philadelphia-based Mobiquity, Inc., a mobile tech company that focuses on digital strategy and engineering enhanced mobile experiences. Since 2016, he has served as the Chair of the Mobiquity advisory board. In addition, Dr. Snyder is a senior fellow in the Management Department at the Wharton School and an adjunct faculty member in the School of Engineering and Applied Science at the University of Pennsylvania. Dr. Snyder earned his B.S., M.S. and Ph.D. in Systems Engineering from the University of Pennsylvania, and an Executive Certificate from the University of Southern California.

Age: 52

Fulton Director since: 2016

Committees:

- Nominating and Corporate Governance - Member
- Risk - Vice Chair

Dr. Snyder brings business acumen, experience in the technology sector and leadership in digital innovation to the Fulton Board of Directors. Dr. Snyder has extensive expertise in the development of digital solutions, mobile business strategy and mobile security. In 2017, Dr. Snyder also successfully completed the NACD Cyber-Risk Oversight Program and earned a CERT Certificate in Cybersecurity Oversight, issued by the Software Engineering Institute at Carnegie Mellon University.

RONALD H. SPAIR (Independent Director)



Age: 62

Fulton Director since: 2015

Committees:

- Audit - Chair and financial expert
- Executive - Member
- Human Resources - Member

Mr. Spair has served as the Chief Financial Officer, Chief Operating Officer and a member of the Board of Directors of OraSure Technologies, Inc. (NASDAQ:OSUR), a diagnostic and medical device company headquartered in Bethlehem, Pennsylvania, since September 2006, and as Executive Vice President and Chief Financial Officer since November 2001, and plans to retire from OraSure Technologies, Inc. in 2018. Since 2013, Mr. Spair has also served on the board of Life Science – PA, which was formerly known as Pennsylvania Biotechnology Association, a state trade association for the life sciences community in the Commonwealth of Pennsylvania. He is a certified public accountant, a chartered global management accountant and holds an MBA from Rider College.

Mr. Spair brings his public company executive experience and financial expertise to Fulton’s Board of Directors. Mr. Spair has also had extensive experience negotiating mergers and acquisitions, development and licensing transactions and corporate financings.

MARK F. STRAUSS (Independent Director)



Age: 66

Fulton Director since: 2016

Committees:

- Human Resources - Vice Chair
- Nominating and Corporate Governance - Member
- Special Joint Board Compliance - Member

Mr. Strauss has served as director of Fulton Bank of New Jersey since 2011, and as a director of Skylands Community Bank prior to its merger with Fulton Bank of New Jersey in 2011. From October 2010 to his retirement in December 2017, he served as Senior Vice President of Corporate Strategy and Business Development at American Water Works Company, Inc. (NYSE: AWK), the largest and most geographically diverse publicly traded U.S. water and wastewater utility company. Mr. Strauss was responsible for working with the senior management team to link overall strategy and major growth efforts for American Water’s regulated and competitive operations.

From December 2006 to September 2010, Mr. Strauss served as President of American Water Enterprises, which owns and operates several of American Water’s market-based businesses. In this role, Mr. Strauss oversaw American Water’s non-regulated business units that offer operations and maintenance contract services across the United States and Canada, including water and wastewater management for military bases, service-line protection programs, design, construction and operation of community onsite water and wastewater systems, and other innovative solutions that address a variety of challenges facing the industry.

Mr. Strauss has legal and executive skills and is admitted and licensed to practice law in New Jersey.

ERNEST J. WATERS (Independent Director)



Age: 68

Fulton Director since: 2012

Committees:

- Audit - Member and financial expert
- Executive - Member
- Risk - Member
- Special Joint Board Compliance - Chair

In addition to serving as a director of Fulton, Mr. Waters has also been a director of Fulton Bank, N.A. since 2011. Mr. Waters retired from Metropolitan Edison, a FirstEnergy company, in 2009, where he served as the Area Vice President and Area Manager. Mr. Waters joined the FirstEnergy companies (an investor-owned utility) in 1976 and held various positions in Auditing and Marketing during his tenure. He also served as an expert accounting witness in setting rates before the Pennsylvania Public Utility Commission. Prior to joining the FirstEnergy companies, Mr. Waters was a public accountant and business consultant in Philadelphia. He is a former certified public accountant and holds an MBA from the University of Pittsburgh. Since 2007, Mr. Waters has served on the Board of Directors of the York Water Company (NASDAQ: YORW) where he chairs their Compensation Committee and is a member of the Audit Committee. In addition, Mr. Waters has served at leadership and committee levels with numerous community and nonprofit organizations. He is a past Chairman of the Board of York Hospital and recently completed a nine year tenure as member of the Board, and chair of the Audit Committee for Wellspan Health, York Hospital's parent company.

Mr. Waters has business, regulatory, leadership, board service and accounting expertise that brings valuable perspectives to Fulton's Board of Directors. He has also completed the requirements for the NACD Board Leadership Fellow Program since 2014. In 2017, Mr. Waters also successfully completed the NACD Cyber-Risk Oversight Program and earned a CERT Certificate in Cybersecurity Oversight, issued by the Software Engineering Institute at Carnegie Mellon University.

E. PHILIP WENGER (Chairman of the Board and CEO)



Age: 60

Fulton Director since: 2009

Committees:

- Executive - Member
- Special Joint Board Compliance - Member

Mr. Wenger became Chairman of the Board and Chief Executive Officer of Fulton effective on January 1, 2013. He also served as President from 2008 to 2017, and Chief Operating Officer of Fulton from 2008 to 2012. Mr. Wenger was a director of Fulton Bank from 2003 to 2009, Chairman of Fulton Bank from 2006 to 2009 and has been employed by Fulton in a number of positions since 1979.

In addition, Mr. Wenger currently serves on the Board of Directors for the Pennsylvania Chamber of Commerce, as well as the Lancaster County YMCA Foundation and Crispus Attucks Community Center. He is Chair of the Advisory Board of Stonier Graduate School of Banking, and of the Economic Development Company of Lancaster County, as well as a member of the Penn State Harrisburg Board of Advisers. Mr. Wenger is also a member of the American Bankers Association board of directors and the Operation HOPE Global board of directors, a global financial dignity and economic empowerment nonprofit. He is a past chair of the Lancaster Chamber of Commerce.

Mr. Wenger possesses an extensive knowledge of the many aspects of banking operations through more than thirty years of experience in the financial services industry. He has gained valuable insight through his experience in different banking areas, including retail banking, commercial banking, bank operations and systems.

Security Ownership of Directors, Nominees, Management and Certain Beneficial Owners

The following table sets forth the number of shares of common stock beneficially owned¹ as of the Record Date, the latest practicable date, by each director nominee, and the named executive officers, Messrs. Wenger, Rohrbaugh, McCollom, Roda, Myers and Ms. Chivinski, (collectively the “Named Executive Officers” or the “Executives;” and individually, a “Named Executive Officer” or an “Executive”) and those persons known to be the beneficial owner of more than 5% of Fulton’s common stock. Except as to the beneficial owners and other principal holders listed below, to the knowledge of Fulton, no person or entity owned, of record or beneficially, on the Record Date more than 5% of the outstanding common stock of Fulton. Unless otherwise indicated in a footnote, shares shown as beneficially owned by each director nominee and each Executive are held individually by the person. The director nominees and the Executives of Fulton, as a group, owned of record and beneficially 1,477,545 shares of Fulton common stock, representing 0.84% of such shares then outstanding. Shares representing less than one percent of the outstanding shares are shown with a “*” below.

<u>Name of Beneficial Owner</u>	<u>Title</u>	<u>Number of Common Shares Beneficially Owned</u> ^{2 3 4}	<u>Percent of Class</u>
Lisa Crutchfield	Director Nominee	8,948	*
Denise L. Devine	Director Nominee	15,498 ⁵	*
Patrick J. Freer	Director Nominee	113,449 ⁶	*
George W. Hodges	Director Nominee	43,758 ⁷	*
Albert Morrison III	Director Nominee	33,467	*
James R. Moxley III	Director Nominee	125,954 ⁸	*
R. Scott Smith, Jr.	Director Nominee	281,958 ⁹	*
Scott A. Snyder	Director Nominee	3,550	*
Ronald H. Spair	Director Nominee	6,082	*
Mark F. Strauss	Director Nominee	20,701 ¹⁰	*
Ernest J. Waters	Director Nominee	20,848 ¹¹	*
E. Philip Wenger	Director Nominee, Chairman of the Board and Chief Executive Officer	287,494 ¹²	*
Mark R. McCollom ¹³	Senior Executive Vice President	0	*
Beth Ann L. Chivinski	Senior Executive Vice President and Chief Risk Officer	54,792 ¹⁴	*
Curtis J. Myers	President and Chief Operating Officer	124,803 ¹⁵	*
Craig A. Roda ¹⁶	Senior Executive Vice President	90,818	*
Philmer H. Rohrbaugh ¹⁷	Senior Executive Vice President and Chief Financial Officer	74,717 ¹⁸	*
Total Ownership	Director Nominees, Named Executive Officers and executive officers as a Group (23 Persons)	1,477,545	0.84%
<u>Beneficial Owners Holding More than 5%</u>			
BlackRock, Inc. ¹⁹ 55 East 52nd Street New York, NY 10055	N/A	18,973,800	10.8%
The Vanguard Group ²⁰ 100 Vanguard Blvd. Malvern, PA 19355	N/A	15,418,001	8.80%
Dimensional Fund Advisors LP ²¹ Building One 6300 Bee Cave Road Austin, TX 78746	N/A	14,254,652	8.14%

¹ Beneficial ownership is determined in accordance with SEC Rule 13d-3, which provides that a person is deemed to own any stock for which that person has or shares: (i) voting power, which includes the power to vote or to direct the voting of the stock; or (ii) investment power, which includes the power to dispose or direct the disposition of the stock; or (iii) the right to acquire beneficial ownership within 60 days after the Record Date.

² Includes 130,768 shares issuable upon the exercise of vested stock options, which have been treated as outstanding shares for purposes of calculating the percentage of outstanding shares owned by each individual as a group.

³ As of the Record Date, none of the listed individuals had pledged Fulton stock.

⁴ Fulton has established stock ownership guidelines for Fulton directors and certain officers. See a description of the ownership requirements on Page 43.

⁵ Ms. Devine's ownership includes 1,000 shares held jointly with her spouse.

⁶ Mr. Freer's ownership includes 97,040 shares held jointly with his spouse.

⁷ Mr. Hodges' ownership includes 21,430 shares held in a 401(k) plan, 200 shares held in Irrevocable Trust for children and 4,466 shares held by The Hodges Family Foundation, Inc. Mr. Hodges disclaims beneficial ownership of the shares held by The Hodges Family Foundation, Inc.

⁸ Mr. Moxley's ownership includes 39,115 shares held by The Moxley Family Trust, 1,076 shares held solely by his spouse, 16,127 shares held by Mr. Moxley as custodian for his children and 20,000 shares held in a 401(k) plan.

⁹ Mr. Smith's ownership includes 263,444 shares held jointly with his spouse.

¹⁰ Mr. Strauss' ownership includes 977 shares held jointly with his spouse and 6,427 shares held in an IRA.

¹¹ Mr. Waters' ownership includes 6,276 shares held in an IRA.

¹² Mr. Wenger's ownership includes 144,297 shares held jointly with his spouse and 79,792 shares held in Fulton's 401(k) Plan. Also includes 3,064 shares held in Fulton's 401(k) Plan by his spouse and 341 shares held by Mr. Wenger as custodian for his children.

¹³ Mr. McCollom joined Fulton as a member of Fulton's senior management on November 20, 2017 and replaced Mr. Rohrbaugh as Fulton's Chief Financial Officer effective March 2, 2018.

¹⁴ Ms. Chivinski's ownership includes 8,608 shares held in Fulton's 401(k) Plan.

¹⁵ Mr. Myers' ownership includes 45,283 shares held in Fulton's 401(k) Plan, 47,173 shares which may be acquired pursuant to the exercise of vested stock options and 11,980 shares held jointly with his spouse.

¹⁶ Mr. Roda has announced he will retire as a member of Fulton's senior management effective May 1, 2018.

¹⁷ Mr. Rohrbaugh served as Fulton's Chief Financial Officer from December 6, 2016 through March 1, 2018, and he retired as a member of Fulton's senior management effective March 30, 2018.

¹⁸ Mr. Rohrbaugh's ownership includes 27,000 shares held in an IRA, 274 shares in Fulton's ESPP and 47,442 shares held jointly with his spouse.

¹⁹ This information is based solely on a Schedule 13G filed with the SEC on January 19, 2018 by BlackRock, Inc., which reported sole voting power as to 18,606,201 shares and sole dispositive power as to 18,973,800 shares, as of December 31, 2017.

²⁰ This information is based solely on a Schedule 13G filed with the SEC on February 9, 2018 by The Vanguard Group, which reported sole voting power as to 190,445 shares and sole dispositive power as to 15,225,666 shares, shared voting power as to 18,414 shares and shared dispositive power as to 192,335 shares, as of December 31, 2017.

²¹ This information is based solely on a Schedule 13G filed with the SEC on February 9, 2018 by Dimensional Fund Advisors LP, which reported sole voting power as to 13,941,583 shares and sole dispositive power as to 14,254,652 shares, as of December 31, 2017.

INFORMATION CONCERNING THE BOARD OF DIRECTORS

Meetings and Committees of the Board of Directors

There were nine (9) regular and special meetings of the Board of Directors of Fulton and fifty-three (53) meetings of the committees of the Board of Directors of Fulton during 2017. No director attended fewer than 75% of (i) all meetings of the Board of Directors, (ii) all of the meetings of the committees of the Board of Directors on which a director served, or (iii) the aggregate number of meetings of the Board of Directors and of the committees of the Board of Directors on which he or she served in 2017.

The Board of Directors of Fulton has the following five regular standing committees: Audit, Executive, Human Resources, Nominating and Corporate Governance and Risk. Fulton also established the Special Joint Board Compliance Committee (the “Compliance Committee”) as further described below. The following table represents the membership on each Fulton committee as of the date of this Proxy Statement:

	Audit	Executive	Human Resources	Nominating and Corporate Governance	Risk	Compliance
Lisa Crutchfield		Member		Chair	Member	
Denise L. Devine	Member	Member	Chair			
Patrick J. Freer			Member	Vice Chair		
George W. Hodges	Member	Chair	Member			
Albert Morrison III	Vice Chair				Member	Member
James R. Moxley III		Vice Chair		Member	Chair	Vice Chair
R. Scott Smith, Jr.					Member	
Scott A. Snyder				Member	Vice Chair	
Ronald H. Spair	Chair	Member	Member			
Mark F. Strauss			Vice Chair	Member		Member
Ernest J. Waters	Member	Member			Member	Chair
E. Philip Wenger		Member			Member*	Member

*Ex-officio member per bylaws

Human Resources Committee Interlocks and Insider Participation

HR Committee. Fulton maintains a Human Resources Committee (defined above as the “HR Committee”), and all members of the HR Committee meet the independence requirements of the NASDAQ listing standards for membership on compensation committees. More information regarding the HR Committee can be found in the “Compensation Discussion and Analysis” section of this Proxy Statement beginning on Page 26. There are no interlocking relationships, as defined in applicable SEC regulations, involving members of the HR Committee. Certain directors may have indirect relationships described in “Related Person Transactions” beginning on Page 22. The HR Committee is responsible for approving or recommending to the Board of Directors the compensation for the Executives, oversight of Fulton’s cash and equity-based incentive compensation plans, the ESPP and the 401(k) Plan, approving employment agreements for the Executives and other officers of Fulton and fulfilling other broad-based human resources duties. The HR Committee met a total of ten (10) times in 2017. The HR Committee is governed by a formal charter, which was last amended in July 2017, and which is available on Fulton’s website at www.fult.com.

Other Board Committees

Audit Committee. All members of the Audit Committee meet the independence requirements of the NASDAQ listing standards, and the rules and regulations of the SEC for membership on audit committees. Each of the members of the Audit Committee have been determined to qualify, been designated by the Board of Directors, and agreed to serve, as an Audit Committee “financial expert” as defined by SEC regulations. The Audit Committee met thirteen (13) times during 2017.

The Audit Committee is governed by a formal charter, which was last amended in July 2017, and which is available on Fulton’s website at www.fult.com. The Audit Committee’s pre-approval policy and procedure for audit and non-audit services is set forth in its charter. The functions of the Audit Committee include: sole authority to appoint, evaluate, retain, or terminate the independent auditor; direct responsibility for the compensation and oversight of the work of the independent auditor; oversight of the overall relationship with the independent auditor; meeting with

the independent auditor to review the scope of audit services; reviewing and discussing with management and the independent auditor annual and quarterly financial statements and related disclosures; overseeing the internal audit function, including hiring and replacing the chief audit executive; reviewing related person transactions; establishing procedures and handling complaints concerning accounting, internal accounting controls, or auditing matters; and those risk management matters outlined in the Audit Committee Charter. In addition, with respect to any bank subsidiary of Fulton that has not established its own independent audit committee, it is intended that Fulton's Audit Committee, in carrying out its responsibilities, will also satisfy the obligations imposed on such bank subsidiary of Fulton relating to the establishment and duties of an independent audit committee as set forth in Section 36 of the Federal Deposit Insurance Act and its implementing regulations.

Based on its review and discussion of the audited 2017 financial statements of Fulton with management and KPMG LLP the independent auditor of the Fulton's financial statements, the Audit Committee recommended to the Board of Directors that the financial statements be included in the Annual Report on Form 10-K for filing with the SEC. A copy of the report of the Audit Committee of its findings that resulted from its financial reporting oversight responsibilities is attached as Exhibit A.

Nominating and Corporate Governance Committee. All members of the Nominating and Corporate Governance Committee meet the independence requirements of the NASDAQ listing standards. The Nominating and Corporate Governance Committee met eight (8) times during 2017.

The Nominating and Corporate Governance Committee is responsible for, among other things, recommending to the Board of Directors nominees for election to the Board of Directors and assisting the Board of Directors with corporate governance matters, including the review and approval of all changes to the Code of Conduct, Governance Guidelines and the responsibility for guidelines and procedures to be used by directors in completing Board of Directors evaluations used in monitoring and evaluating the performance of the Board of Directors and committees. The Nominating and Corporate Governance Committee is also responsible for determining whether Fulton's directors and Executives are in compliance with Fulton's stock ownership guidelines. The Nominating and Corporate Governance Committee is governed by a formal charter, which was last amended in July 2017, and is available on Fulton's website at www.fult.com.

Executive Committee. The Executive Committee met one (1) time during 2017. Except for the powers expressly excluded in Section 5 of Article III of the Bylaws, the Executive Committee exercises the powers of the Board of Directors between board meetings.

Risk Committee. Fulton's Risk Committee met nine (9) times during 2017. The Risk Committee is responsible for providing oversight of the risk management functions and practices of Fulton, including assisting the Board of Directors with its oversight of Fulton's policies, procedures and practices relating to assessment and management of Fulton's enterprise-wide risks, including those risks identified in Fulton's Enterprise Risk Management Policy, which currently include strategic risk, credit risk, market risk, liquidity risk, operational risk, legal risk, compliance and regulatory risk and reputational risk. Fulton's Board of Directors considered the qualifications and experience of each Risk Committee member under Regulation YY (12 C.F.R Part 252) ("Regulation YY") promulgated by the Board of Governors of the Federal Reserve System and applicable to board risk committees of publicly traded bank holding companies with assets of \$10 billion or more and less than \$50 billion. The Risk Committee Chair is an independent director, and each of the members of the Risk Committee was found by Fulton's Board of Directors to possess the requisite experience in identifying, assessing and managing risk exposures at large, complex firms. The Risk Committee is governed by a formal charter, which was last amended in July 2017, and is available on Fulton's website at www.fult.com.

Compliance Committee. The Special Joint Board Compliance Committee (defined above as the "Compliance Committee") was established to assist the Board of Directors and the Boards of Fulton's subsidiary banks, in fulfilling their respective responsibilities to oversee compliance with the enforcement orders relating to Bank Secrecy Act and anti-money laundering ("BSA/AML") compliance matters at Fulton and its subsidiary banks and to oversee Fulton's management of certain other compliance risks. See "Legal Proceedings" within "Note 17 – Commitments and Contingencies" in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data in Fulton's Annual Report on Form 10-K, for the year ended December 31, 2017, for additional information regarding the enforcement orders issued to Fulton and three of its subsidiary banks. The Compliance Committee is comprised of five (5) Fulton directors and directors from each of Fulton's subsidiary banks, and it met twelve (12) times during 2017.

Board's Role in Risk Oversight

While each of Fulton's committees are responsible for overseeing the management of certain risks, Fulton's Risk Committee is primarily responsible for overseeing the management of such risks for Fulton, and the entire Board of Directors is regularly informed through committee reports and review of committee meeting minutes about such risks. Fulton's Risk Committee is primarily responsible for overseeing the management of Fulton's enterprise-wide risks, and the Board of Directors continues to regularly review information regarding Fulton's exposure to strategic risk, credit risk, market risk, liquidity risk, operational risk, compliance and regulatory risk, legal risk and reputational risk, as well as Fulton's strategies to monitor, control and mitigate its exposure to these risks. In addition, the HR Committee is responsible for overseeing the management of risks relating to all of Fulton's compensation plans. The Audit Committee shares with the Risk Committee a general oversight role in Fulton's risk management process in the context of the Audit Committee's responsibility for financial reporting and its evaluation and assessment of the adequacy of Fulton's internal control structure. The Nominating and Corporate Governance Committee manages risks associated with the independence of the Board of Directors, potential conflicts of interest and governance matters. The Compliance Committee is responsible for overseeing management of certain risks related to compliance and regulatory matters.

The Board of Directors also relies upon Fulton's Chief Risk Officer and other members of Fulton's Enterprise Risk Management Committee, which is Fulton's officer-level risk management committee, to oversee and manage existing and emerging risks and serve as a primary review forum prior to escalation to the Risk Committee and the Board of Directors. This officer-level risk management committee provides management-level oversight for Fulton's risk management and compliance programs. In addition, annually, Fulton's Board of Directors adopts a formal Risk Appetite Statement which sets forth both the qualitative and quantitative parameters within which Fulton executes its business strategies. This document also outlines the general framework within which Fulton manages risk in the context of Fulton's core values and its management philosophy, which seeks to balance the risk it assumes in serving its customers and communities with the return it earns for its shareholders.

Fulton's framework for enterprise risk management consists of three "lines of defense:" 1) business units, bank operations, shared services and corporate staff office functions (collectively known as front line units) have primary responsibility for risk management and compliance, and they each drive process deployment, risk identification and management, policies and procedures, training and communication/reporting; 2) independent risk management units (consisting of risk management, compliance, loan review, vendor risk management, fraud risk management, Bank Secrecy Act compliance, corporate information security office and other risk management units) have oversight responsibility and define governance requirements for risk management and compliance, and these units educate, advise and monitor front line unit risk and compliance activities in discrete areas; and 3) Fulton's Internal Audit function independently validates the effectiveness of internal controls and risk management activities within front line units and independent risk management units in those areas, and periodically reports results to management and the Board of Directors.

Fulton's risk appetite is centered on Fulton's objective to consistently increase and enhance shareholder value, while managing risk at an acceptable level. Fulton's Board of Directors, and the committees that monitor risk, assess and oversee the management of risk, including the establishment, tracking and reporting of key risk indicators within the primary risk categories of strategic, credit, market, liquidity, operational, legal, compliance and regulatory and reputational risk. Fulton's key risk indicator thresholds reflect Fulton's objective to consistently increase and enhance shareholder value and maintain capital at a level and quality that supports Fulton's long-term strategic objectives as well as comply with regulatory guidelines. Finally, Fulton engages in ongoing risk assessments, capital management and stress testing to ensure that Fulton has adequate capital to absorb potential losses under various stress scenarios.

Cybersecurity risk is a key consideration in the operational risk management capabilities at Fulton. Under the direction of its Chief Information Security Officer, Fulton maintains a formal information security management program, which is subject to oversight by, and reporting to, the Risk Committee of the Board of Directors. Given the nature of Fulton's operations and business, including Fulton's reliance on relationships with various third-party providers in the delivery of financial services, cybersecurity risk may manifest itself through various business activities and channels, and it is thus considered an enterprise-wide risk and subject to control and monitoring at various levels of management throughout the business. In accordance with its charter, the Risk Committee of the Board of Directors oversees and reviews reports on significant matters of actual, threatened or potential breaches of corporate security, including cybersecurity. Fulton also maintains specific cyber insurance through its corporate insurance program, the adequacy of which is subject to review and oversight by the Risk Committee of the Board of Directors as well.

Lead Director and Fulton's Leadership Structure

Director Hodges currently serves as Fulton's Lead Director and is the independent Chair of the Executive Committee. He is also a member of the Audit Committee and Human Resources Committee. The Board of Directors has made a determination that a structure which includes a Lead Director and a combined Chairman/CEO is appropriate for Fulton. Pursuant to the Governance Guidelines, the Board of Directors designates for a term of at least one (1) year, and publicly discloses in Fulton's Proxy Statement, the independent non-employee director who will lead the non-employee directors' executive sessions and preside at all meetings of the Board of Directors at which the Chairman is not present. The Governance Guidelines also require that the Lead Director shall, as appropriate: serve as a liaison between the Chairman and the independent directors; approve information sent to the Board of Directors; approve meeting schedules to assure that there is sufficient time for discussion of all agenda items; and have the authority to call meetings of the independent directors.

Similar to many public companies, the leadership structure of Fulton combines the positions of Chairman and CEO. This structure permits the CEO to manage Fulton's daily operations and provides a single voice for Fulton when needed. Fulton believes that separation of these roles is not necessary because the Lead Director acts to counterbalance the combined Chairman and CEO positions. In addition, approximately 92% of Fulton's directors (11 out of 12) are independent under applicable NASDAQ standards, which provides an appropriate level of independent oversight at Board of Directors meetings and executive sessions. Finally, Fulton's HR Committee, Nominating and Corporate Governance Committee and Audit Committee are all currently, and will continue to be, comprised solely of independent directors.

Executive Sessions

The independent directors of the Fulton Board of Directors met three (3) times in executive session at which only independent directors were present in 2017. The Chair of the Executive Committee, George W. Hodges, who also served as the Lead Director, conducted these executive sessions of the independent directors.

Annual Meeting Attendance

Pursuant to Fulton's Governance Guidelines, Fulton expects directors to attend the Annual Meeting in person unless their absence is excused. All members of the Board of Directors attended the 2017 Annual Meeting, except for Director Scott Snyder, whose attendance at the 2017 Annual Meeting of Shareholders was excused.

Director Education and Board of Directors Development

Fulton encourages its directors to attend outside seminars and educational programs as part of its corporate governance and general board education process. These educational opportunities are in addition to the education and development presentations that are provided during Fulton Board of Directors meetings and seminars. For example, third parties are periodically asked to provide the Board of Directors with presentations on governance, the economy, regulatory, compliance and a variety of other topics of interest. In addition, Directors Devine, Hodges and Waters have each completed the requirements for the NACD Board Leadership Fellow Program for 2017 and prior years. In order to become NACD Fellows, individuals must demonstrate their knowledge of the leading trends and practices that define exemplary corporate governance, and commit to developing professional insights through a sophisticated course of ongoing study. In 2017, Dr. Snyder and Mr. Waters also successfully completed the NACD Cyber-Risk Oversight Program and earned a CERT Certificate in Cybersecurity Oversight, issued by the Software Engineering Institute at Carnegie Mellon University. With the oversight of the Nominating and Corporate Governance Committee, Fulton will continue to promote board development and ensure directors are kept current in a selection of topics via onsite programs sponsored by Fulton, and external and remote learning opportunities.

Legal Proceedings

There are no material legal proceedings to which any director, officer, nominee, affiliate or principal shareholder, or any associate thereof, is a party adverse to Fulton, or in which any such person has a material interest adverse to Fulton.

Related Person Transactions

Financial Products and Services: Some of the current directors and executive officers of Fulton, including the Executives, their family members and the companies with which they are associated, were customers of, and/ or had banking transactions with, Fulton's subsidiaries during 2017. These transactions included deposit accounts, trust relationships, loans and other financial products and services provided in the ordinary course of business by Fulton's bank subsidiaries. All loans and commitments to lend made to such persons and to the companies with which they are associated were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the lender, and did not involve more than a normal risk of collectability or present other unfavorable features. It is anticipated that similar transactions will be entered into in the future. By using Fulton's products and services, directors and executive officers have the opportunity to become familiar with the wide array of products and services offered by Fulton's subsidiaries to customers.

Other Transactions: Applicable SEC regulations require Fulton to disclose transactions with certain related persons where the annual amount involved exceeds \$120,000. However, a person who has a position or relationship with a firm, corporation, or other entity that engages in a transaction with Fulton is not deemed to have a material interest in a transaction where the interest arises only from such person's position as a director of the firm, corporation or other entity and/or arises only from the ownership by such person in the firm, corporation or other entity if that ownership is under 10%, excluding partnerships. Amounts paid to entities in which a related person does not have a material interest or were obtained by a low bid pursuant to a formal request for proposal to provide services are not required to be disclosed. During 2017, Fulton did not have any related person transactions in excess of \$120,000 requiring specific disclosure.

Fulton considered the transactions between Fulton and members of the Board of Directors and executive officers that do not require specific disclosure, when it made the determinations that eleven (11) of Fulton's twelve (12) director nominees, or approximately 92% of its director nominees who are standing for election at the 2018 Annual Meeting, are independent in accordance with the NASDAQ listing standards. See "Information about Nominees, Directors and Independence Standards" on Page 9 for more information.

Family Relationships: SEC regulations generally require disclosure of any employment relationship or transaction with a related person where the amount involved exceeds \$120,000. In fiscal year 2017, there were no family relationships among any of the members of the Board of Directors and executive officers of Fulton, except for Messrs. Wenger and Roda, who are related by marriage and are brothers-in-law. In addition, as of December 31, 2017, other family relationships existed among executive officers and some of the approximately 3,700 employees of Fulton and its subsidiaries. These Fulton employees participate in compensation, benefit and incentive plans on the same basis as other similarly situated employees.

Related Person Transaction Policy and Procedures: Fulton does not have a separate policy specific to related person transactions. Under the Code of Conduct, however, employees and directors are expected to recognize and avoid those situations where personal interest or relationships might interfere, or appear to interfere, with their responsibilities to Fulton. The Code of Conduct also requires thoughtful attention to the problem of conflicts and the exercise of the highest degree of good judgment. Under the Code of Conduct, directors must provide prompt notice to Fulton of all new or changed business activities, related person relationships and board directorships as they arise.

In addition, Fulton and its subsidiary banks are subject to Regulation O, which governs loans by federally regulated banks to certain insiders, including an executive officer, director or 10% controlling shareholder of the applicable bank or bank holding company, or an entity controlled by such executive officer, director or controlling shareholder (an "Insider"). Each Fulton subsidiary bank is required to follow a Regulation O policy that prohibits the affiliate bank from making loans to an Insider unless the loan (i) is made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with persons not related to the lender; and (ii) does not involve more than the normal risk of repayment or present other unfavorable features. Fulton and its subsidiary banks are examined periodically by bank regulators and Fulton's Internal Audit Department for compliance with Regulation O to ensure that internal controls exist within Fulton and its subsidiary banks to monitor Fulton's compliance with Regulation O.

In accordance with Fulton’s Audit Committee Charter and NASDAQ listing standards, the Audit Committee is charged with the responsibility to conduct, at least annually, an appropriate review and oversight of all transactions with related persons as defined in applicable SEC regulations. This responsibility includes reviewing an annual report regarding the related person transactions, if any, with each member of Fulton’s Board of Directors, the Executives and Fulton’s other executive officers during the prior year. At a meeting in February 2018, the Audit Committee reviewed and approved a report of all existing related person transactions in 2017 involving Fulton’s directors, the Executives and Fulton’s other executive officers.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act, requires Fulton’s executive officers, including the Executives, its principal accounting officer, its directors, and any persons owning 10% or more of Fulton’s common stock, to file with the SEC, in their personal capacities, initial statements of beneficial ownership on Form 3, statements of changes in beneficial ownership on Form 4 and annual statements of beneficial ownership on Form 5. Persons filing such beneficial ownership statements are required by SEC regulation to furnish Fulton with copies of all such statements filed with the SEC. The rules of the SEC regarding the filing of such statements require that “late filings” of such statements be disclosed in Fulton’s Proxy Statement. Based solely on Fulton’s review of Forms 3 and 4 and amendments thereto furnished to Fulton during the 2017 fiscal year, including Forms 5 and amendments thereto furnished to Fulton, and on written representations from Fulton’s directors, the Executives and Fulton’s other executive officers, Fulton believes that all such statements were timely filed in 2017.

Board of Directors and Committee Evaluations

Pursuant to its charter, the Nominating and Corporate Governance Committee reviews and recommends to the Board of Directors guidelines and procedures to be used by directors in monitoring and evaluating the performance of the Board of Directors and its committees. The Board of Directors and its committees, except the Executive Committee, conduct an annual self-evaluation of the performance of the Board of Directors and committees. Anonymous board and committee evaluation questionnaires were last completed in the fourth quarter of 2017. The results were compiled by Fulton’s in-house corporate counsel and presented to the Nominating and Corporate Governance Committee in December 2017, and the members of each committee also received a summary report of the results of that committee’s questionnaire. The Nominating and Corporate Governance Committee reported the results to the Board of Directors at its December 2017 regular meeting, and the Board of Directors and each of the committees discussed the summary of its respective annual evaluations.

Compensation of Directors

Non-employee directors serving on the Board of Directors currently receive a combination of cash and equity compensation paid by Fulton for service on the Board of Directors and its committees. Fulton directors do not receive compensation from any third party for their Fulton board service. Equity compensation paid to non-employee directors is granted pursuant to the 2011 Directors’ Equity Participation Plan (the “2011 Director Plan”). The equity compensation paid to non-employee directors during 2017 was in the form of shares of Fulton common stock that had no restriction or vesting requirements. The 2011 Director Plan provides that the maximum number of shares, in the aggregate, under all types of awards granted to any one participant in any one calendar year, excluding elections to receive cash fees in the form of Fulton shares, shall not exceed the greater of 10,000 shares, or a number of shares with a fair market value on the date of the grant of \$100,000.00.

Salaried officers of Fulton do not receive additional compensation for service on the Board of Directors. Thus, Mr. Wenger did not receive any director fees or additional compensation in 2017 for serving as a member of the Board of Directors.

The Board of Directors reviews non-employee director compensation annually, with the assistance of the HR Committee and a report from the HR Committee's independent compensation consultant, with any adjustments to director compensation made as part of its organizational meeting activities. The Board of Directors last revised the structure and amounts of cash and equity compensation paid to non-employee members of the Board of Directors in 2013, and in 2017 increased the annual equity retainer paid. The structure and amounts of compensation paid to non-employee directors for service on the Board of Directors and its committees during 2017 was as follows:

Non-employee Director Fees	Amount
Quarterly Retainer	\$8,750 in cash
Additional quarterly retainer paid to the Lead Director	\$7,500 in cash
Additional quarterly retainer paid to committee chairs ¹	\$3,125 in cash
Board meeting attendance fee	\$2,000 in cash per meeting attended
Committee meeting attendance fee ²	\$1,000 in cash per meeting attended
Special Joint Board Compliance Committee meeting attendance fee	\$1,000 in cash per meeting attended
Annual equity retainer ³	Fulton common stock equivalent to \$50,000 ⁴
Educational and seminar attendance fee ⁵	\$1,000 in cash per day

¹ An additional quarterly retainer is not paid to the chair of the Executive Committee.

² Committee meeting attendance fees are not paid to a non-employee director for attending committee meetings held in conjunction with a regularly scheduled meeting of the Board of Directors that the director attended.

³ Stock awards granted to non-employee directors elected at the Annual Meeting of shareholders and granted to non-employee directors serving on the date of grant on November 1. Stock awards were granted on June 1, 2017 in the amount of \$17,500 and November 1, 2017 in the amount of \$25,000.

⁴ The number of shares granted to each director was determined based on the closing price of Fulton common stock on the date of grant, rounded up to the next whole share. In 2017, the HR Committee approved an increase in the value of stock awards from \$35,000 to \$50,000, paid in two \$25,000 installments per year. The November 1, 2017 stock award reflects this increase.

⁵ Paid for attendance at approved educational meetings or seminars. Since attendance at these meetings and seminars is voluntary, attendance at these meetings and seminars is not considered for purposes of calculating director attendance for Board of Directors and committee meetings.

Fulton also reimburses directors for Board of Directors service-related expenses incurred in serving as directors of Fulton and provides non-employee directors with a \$50,000 term life insurance policy while they are directors. Certain directors have elected to participate in the Fulton Deferred Compensation Plan, under which a director may elect to defer a portion of his or her cash director's fees as those fees are earned and to receive those fees, together with any returns earned on investments selected by the participating director, in a lump sum or in installments over a period of up to twenty (20) years following retirement. The current non-employee directors of Fulton who have established accounts to defer a portion of the fees paid to them in cash are Directors Devine, Freer, Smith, Spair and Waters. Certain directors of Fulton also serve on the boards of certain Fulton subsidiary banks, and these directors are compensated with a retainer, meeting fees, or both for their service on each of those individual boards, and amounts paid are reflected in footnote 4 in the following Director Compensation Table.

The following table summarizes all of the compensation paid to each non-employee Fulton director who served during 2017:

DIRECTOR COMPENSATION TABLE

Name ¹	Fees Earned or Paid in Cash (\$)	Stock Awards ² (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation ^{3,4} (\$)	Total (\$)
Lisa Crutchfield	65,500	42,525	0	0	0	0	108,025
Denise L. Devine	72,500	42,525	0	0	0	0	115,025
Patrick J. Freer	62,250	42,525	0	0	0	0	104,775
George W. Hodges	90,000	42,525	0	0	0	0	132,525
Albert Morison III	75,250	42,525	0	0	0	0	117,775
James R. Moxley III	71,250	42,525	0	0	0	0	113,775
R. Scott Smith, Jr.	53,000	42,525	0	0	0	12,778 ⁵	108,303
Scott A. Snyder	53,000	42,525	0	0	0	0	95,525
Ronald H. Spair	65,250	42,525	0	0	0	0	107,775
Mark F. Strauss	66,000	42,525	0	0	0	0	108,525
Ernest J. Waters	82,500	42,525	0	0	0	0	125,025

¹ Directors listed represent all the non-employee directors of Fulton serving during 2017.

² Fulton's non-employee directors were granted Fulton common stock (rounded to next whole share) as part of their 2017 compensation pursuant to the 2011 Director Plan. The amounts in this column consist of a \$17,511 stock award granted on June 1, 2017 consisting of 981 shares having a grant date fair value of \$17.85 per share (the closing price of Fulton common stock on June 1, 2017), and a \$25,014 stock award granted on November 1, 2017 consisting of 1,382 shares having a grant date fair value of \$18.10 per share (the closing price of Fulton common stock on November 1, 2017). The stock awards were granted without restriction or vesting requirements, and the amount shown does not reflect the value of any dividends paid on these shares during 2017.

³ Unless otherwise noted, the amount excludes perquisites and other personal benefits with an aggregate value of less than \$10,000. Fulton's methodology to calculate the aggregate incremental cost of perquisites and other personal benefits was to use the amount disbursed for the item. Where a benefit involved assets owned by Fulton, an estimate of the incremental cost was used.

⁴ Some of Fulton's directors also serve on boards of Fulton's subsidiary banks and received director fees for bank board service. The fees paid for this subsidiary board service are excluded from the amounts listed in the table. During 2017, Director Hodges received \$26,500 in fees from Fulton Bank, N.A., Director Moxley received \$17,150 in fees from The Columbia Bank, Director Strauss received \$16,500 in fees from Fulton Bank of New Jersey, and Director Waters received \$27,250 in fees from Fulton Bank, N.A.

⁵ This amount includes club membership fees, plus office use, parking and other perquisites received by Director Smith during 2017.

INFORMATION CONCERNING COMPENSATION

Compensation Discussion and Analysis

This section of the Proxy Statement explains the design and operation of our executive compensation program with respect to the compensation paid to our named executive officers (“Named Executive Officers”) or (“Executives”) for 2017. There were a number of changes and new Named Executive Officers based on role changes within Fulton, including the November 2017 hiring of Mark R. McCollom, who became Fulton’s Chief Financial Officer on March 2, 2018. Mr. McCollom replaced Philmer H. Rohrbaugh, who served as Fulton’s Chief Financial Officer through March 1, 2018 and has retired as a member of Fulton’s senior management effective as of March 30, 2018. Mr. Rohrbaugh held a number of executive positions with Fulton, including Chief Risk Officer, Chief Operating Officer, and became Chief Financial Officer on December 6, 2016. Craig A. Roda, Senior Executive Vice President, has announced he will retire as a member of Fulton’s senior management effective May 1, 2018. Beth Ann L. Chivinski also became a Named Executive Officer in her role as Chief Risk Officer, a position she has held since June 1, 2016.

Fulton’s Named Executive Officers in this Proxy Statement are:

Executive	Fulton Officer Title
E. Philip Wenger	Chairman and Chief Executive Officer
Philmer H. Rohrbaugh	Senior Executive Vice President and Chief Financial Officer, through March 1, 2018
Mark R. McCollom	Senior Executive Vice President and Chief Financial Officer, effective March 2, 2018
Craig A. Roda	Senior Executive Vice President
Curtis J. Myers	Senior Executive Vice President, President and Chief Operating Officer
Beth Ann L. Chivinski	Senior Executive Vice President and Chief Risk Officer

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1. Executive Summary

Fulton believes that the compensation of the Named Executive Officers should reflect Fulton's overall performance and the contributions of the Executives to that performance. Variable compensation awards ("VCP Awards") and long-term equity awards ("LTI Awards") earned by the Executives under Fulton's Amended and Restated Equity and Cash Incentive Compensation Plan (the "2013 Plan") are determined based on predetermined performance goals and the HR Committee's assessment, in the exercise of its discretion, of Fulton's and each Executive's performance in the preceding year.

Fulton's Management's Discussion and Analysis of Financial Condition and Results of Operations in Fulton's Annual Report on Form 10-K for the year ended December 31, 2017, which is being made available to shareholders together with this Proxy Statement, contains an overview of Fulton's 2017 performance. Following is a brief summary of some of the financial highlights identified therein for the year ended December 31, 2017:

- Net Income Per Share Growth: Diluted net income per share increased \$0.05, or 5.4%, to \$0.98 per diluted share for 2017, compared to \$0.93 in 2016.
- Net Interest Income and Net Interest Margin: Net interest income increased \$54.6 million, or 10.5%, compared to 2016, while the fully taxable-equivalent net interest margin increased 10 basis points to 3.28%.
- Loan Growth: Average loans increased \$1.1 billion, or 7.8%, compared to 2016.
- Deposit Growth: Average deposits increased \$895.7 million, or 6.1%, compared to 2016.
- Non-Interest Income: Non-interest income, excluding investment securities gains, increased \$11.3 million, or 6.0%, compared to 2016.
- Non-Interest Expense: Non-interest expense increased \$36.1 million, or 7.4%, compared to 2016.

The HR Committee took a number of actions relating to compensation for the Executives during 2017, as summarized in the table below:

Element	HR Committee Actions									
Salaries	<ul style="list-style-type: none"> Annual base salary increases were approved effective April 1, 2017. Increases of 2.5% for Messrs. Wenger, Rohrbaugh, Roda and Ms. Chivinski, and 8.3% for Mr. Myers. 									
VCP Awards	<ul style="list-style-type: none"> Set target VCP Award amounts for each of the Executives and approved scorecards with a series of performance criteria that would be used to determine the amount of the VCP Awards, if any, that would be paid to each of the Executives. Conditioned the payment of VCP Awards for 2017 performance on Fulton having a return on average equity (“ROE”) of 6.24% and positive net income for 2017. Evaluated Fulton’s and each Executive’s performance relative to the performance criteria and determined that the Executives should receive VCP Awards for 2017 performance as follows: <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #d9e1f2;">Executive</th> <th style="background-color: #d9e1f2;">Target VCP Awards (% of salary)</th> <th style="background-color: #d9e1f2;">Actual VCP Awards (% of salary)</th> </tr> </thead> <tbody> <tr> <td>Mr. Wenger</td> <td style="text-align: center;">85%</td> <td style="text-align: center;">89.9%</td> </tr> <tr> <td>Other Executives</td> <td style="text-align: center;">50%</td> <td style="text-align: center;">Ranged from 52.9% to 56.1%</td> </tr> </tbody> </table>	Executive	Target VCP Awards (% of salary)	Actual VCP Awards (% of salary)	Mr. Wenger	85%	89.9%	Other Executives	50%	Ranged from 52.9% to 56.1%
Executive	Target VCP Awards (% of salary)	Actual VCP Awards (% of salary)								
Mr. Wenger	85%	89.9%								
Other Executives	50%	Ranged from 52.9% to 56.1%								
LTI Awards	<ul style="list-style-type: none"> Approved LTI Award grants in 2017, in the form of performance-based restricted stock units (“Performance Shares”). The number of Performance Shares awarded to each of the Executives was based on a target dollar amount equal to 125% of base salary for the CEO, and 75% of base salary for the other Executives, as of January 1, 2017, which was then converted to a number of Performance Shares on the grant date by dividing the target dollar amount by the closing price of Fulton’s common stock on the grant date. The actual number of shares of Fulton common stock, if any, that the Executives may receive upon vesting on May 1, 2020 following the end of the performance period and determination of the achievement of the Performance Shares by the HR Committee may be higher or lower than the target number granted. The Performance Shares were allocated by the HR Committee among three components, each having different vesting terms, as summarized below: <p>Component A, representing 37.5% of the target dollar amount for the Executives:</p> <ul style="list-style-type: none"> Component A Performance Shares will vest only if Fulton has net income during calendar year 2019 at least equal to the dividends declared on Fulton common stock during the four calendar quarters immediately preceding the grant date (the “Profit Trigger”). The number of shares that may be received upon vesting of Component A Performance Shares is determined based on Fulton’s 2017 return on average assets (“ROA”) measured relative to a peer group. Fulton’s 2017 ROA percentile rank relative to the Peer Group was 39.7%, and the number of shares of stock that may be received upon vesting of the Component A Performance Shares was reduced to 58.73% of the original target number of Component A Performance Shares. The vesting of these Component A Performance Shares remains subject to the Profit Trigger requirement. <p>Component B, representing 37.5% of the target dollar amount for the Executives:</p> <ul style="list-style-type: none"> The number of shares that may be received upon vesting of Component B Performance Shares is determined based on Fulton’s total shareholder return (“TSR”) during the period from May 1, 2017 through March 31, 2020 measured relative to a peer group. <p>Component C, representing between 25% and 37.5% of the target dollar amount for the Executives:</p> <ul style="list-style-type: none"> Component C Performance Shares were awarded at the following percentages of the target dollar amount: Messrs. Wenger, Roda and Myers, 25%; Mr. Rohrbaugh, 37.5%; and Ms. Chivinski, 34.6%. The number of shares that may be received upon vesting of the Component C Performance Shares will not vary based on performance or other factors, but the vesting of Component C Performance Shares is subject to the Profit Trigger requirement. 									

2. Shareholder Say-on-Pay Proposal Historical Results

Since 2011, Fulton has annually submitted a non-binding Say-on-Pay Proposal to its shareholders for approval. At the 2017 Annual Meeting, 73.72% of Fulton’s shareholders, excluding abstentions, voted in favor of a one year frequency of conducting future non-binding Say-on-Pay votes for shareholders to approve the compensation of the Named Executive Officers. The 2018 non-binding Say-on-Pay Proposal is set forth on Page 57.

Fulton views the results of past Say-on-Pay Proposals as support for its previous compensation policies and decisions, and the Board of Directors and its HR Committee will consider the vote on the 2018 non-binding proposal as a barometer of shareholder support for the current compensation programs for the Executives. Since first implemented and presented to shareholders in 2011, Fulton’s shareholders have consistently approved its Say-on-Pay Proposals with an average of 94.49% of shares voted “FOR” the Say-on-Pay Proposals. Following are the results of the vote on Fulton’s prior Say-on-Pay Proposals:

Shares Voted FOR (excluding abstentions) as a Percentage of total vote FOR and AGAINST Fulton’s Say-on-Pay Proposal							
Year	2017	2016	2015	2014	2013	2012	2011
% Voted FOR	97.63%	96.56%	96.15%	96.49%	93.87%	92.63%	90.98%

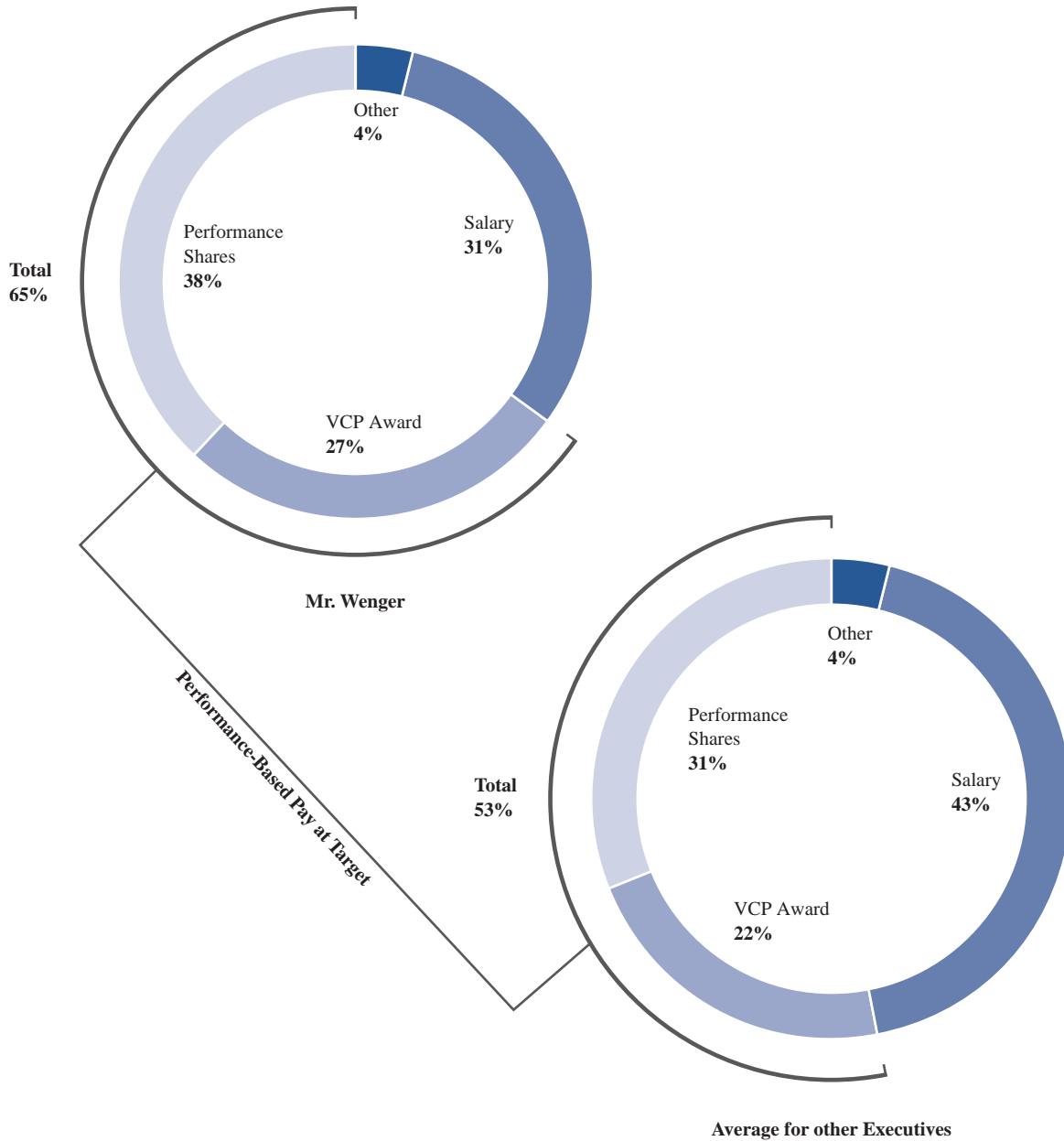
The HR Committee, which is composed exclusively of independent directors, believes that the prior votes of Fulton’s shareholders confirms the philosophy and objective of linking Fulton’s executive compensation to its operating objectives and the enhancement of shareholder value. Fulton views this continued level of shareholder support as an affirmation of Fulton’s current pay practices and, as a result, no significant changes were made to Fulton’s executive compensation pay practices for 2017. The HR Committee will continue to consider the outcome of the Fulton’s say-on-pay votes when making future compensation decisions for the Named Executive Officers.

3. Pay for Performance

The core of Fulton’s compensation philosophy is to link “pay to performance” on both a short-term and long-term basis. VCP Awards are “at-risk” performance-based awards because if the ROE threshold is not met or scorecard performance factors are not achieved, when adjusted, if applicable, for positive or negative corporate performance results using a corporate modifier, then the amount of the VCP Award may be reduced or the Executive may not receive the award. The 2017 Performance Share awards, like the prior year awards, are “at-risk” because, in addition to the amount of annual awards being linked to Fulton’s performance, these awards are subject to vesting and possible forfeiture dependent upon Fulton achieving specified levels of financial performance, thereby maintaining alignment with shareholders regardless of stock price movement. In addition, the Performance Shares only increase in value if Fulton’s share price increases over the term of the award. The HR Committee believes that the VCP Awards and Performance Shares awarded under the 2013 Plan further Fulton’s business plan and further the HR Committee’s objective to ensure that the interests of the Executives, both short-term and long-term, are aligned with the interests of Fulton’s shareholders.

The following charts show the compensation mix for Mr. Wenger and the other Executives with the 2017 VCP Awards at target, the 2017 Performance Shares at target, plus base salary and all other compensation the Executives received in 2017. For 2017, Mr. Wenger’s “performance pay” was 65% of total compensation and the average “performance pay” for the other Executives was 53% of total compensation.

**2017 Compensation Mix Chart – Performance Based Pay at Target
CEO and Average for Other Executives**



4. Compensation Philosophy

Objectives: Fulton’s executive compensation philosophy and programs are intended to achieve three objectives:

Align interests of the Executives with shareholder interests	Fulton believes that the interests of the Named Executive Officers should be closely aligned with those of its shareholders. Fulton attempts to align these interests by evaluating the Executives’ performance in relation to key financial measures, which it believes correlate with consistent long-term shareholder value and increasing profitability, without compromising Fulton’s culture and overall risk profile.
Link “pay to performance”	Fulton believes in a close link between pay to the Executives and the overall performance of Fulton on both a short-term and long-term basis. It seeks to reward the Executives for their contributions to Fulton’s financial and non-financial achievements and to differentiate rewards to the Executives based on their individual contributions.
Attract, motivate and retain talent	Fulton believes its long-term success is closely tied to the attraction, motivation and retention of highly talented employees and a strong management team. While a competitive compensation package is essential in competing for and retaining talented employees in a competitive market, Fulton also believes that non-monetary factors, such as a desirable work environment and successful working relationships between employees and managers, are critical to providing a rewarding employee experience.

To achieve these three objectives, Fulton provides the following elements of Executive compensation:

Base Salary	Fulton generally sets Executive base salaries near the market median at comparable peer companies and to reflect individual job responsibilities, experience and tenure.
Annual Cash Incentive Awards	Annual cash incentive awards, in the form of VCP Awards, are designed to focus the attention of the Executives on the achievement of annual business goals. Under Fulton’s 2013 Plan, awards at the target level of performance are designed to position total cash compensation near the market median. The 2013 Plan provides the Executives with the opportunity to earn cash compensation above the median for superior performance.
Equity Awards	Fulton believes in providing long-term incentive awards consisting of equity in the form of Performance Shares, in order to focus the Executives on delivering long-term performance and shareholder value. The equity award program is also designed to provide the Executives with a long-term wealth-building opportunity that acts as a balance to short-term incentives, ensures a focus on the long-term stability of the organization and incorporates vesting terms that encourage executive retention. Fulton believes in equity award levels that are fair and market competitive, both in isolation and in the context of total compensation.
Benefits	Fulton believes in providing benefits that are competitive in the marketplace and that encourage the Executives to remain with Fulton. Retirement benefits are designed to provide reasonable long-term financial security.
Perquisites	Fulton believes in providing the Executives and other officers with basic perquisites that are necessary for conducting Fulton’s business.

5. HR Committee Membership and Role

The HR Committee is currently comprised of five (5) independent directors, all of whom are appointed to serve annually by the Board of Directors. Each member of the HR Committee qualifies as an independent director under the NASDAQ listing standards and meets the additional NASDAQ independence requirements specific to compensation committee members. No member of the HR Committee is a party to a related person transaction as more fully described in “Related Person Transactions” on Page 22 of this Proxy Statement. There are no interlocking relationships, as defined in the regulations of the SEC, involving members of the HR Committee. For a further discussion on director independence, see the “Information about Nominees, Directors and Independence Standards” section on Page 9 of this Proxy Statement.

Pursuant to its charter, which is available on Fulton’s website at www.fult.com, and consistent with NASDAQ rules, the role of the HR Committee is, among other things, to review and approve, or make recommendations to the Board of Directors with respect to, the base salaries and other compensation paid or granted to the Executives, to administer Fulton’s equity and other compensation plans and to take such other actions, within the scope of its charter, as the HR Committee deems necessary or appropriate. The HR Committee relies upon such performance data, statistical information and other data regarding executive compensation programs, including information provided by Fulton’s Human Resources Department, Fulton’s officers and outside advisors, as it deems appropriate. The HR Committee has unrestricted access to individual members of management and employees and may ask them to attend any HR Committee meeting or to meet with any member of the HR Committee. The HR Committee also has the power and discretion to retain, at Fulton’s expense, such independent counsel and other advisors or experts as it deems necessary or appropriate to carry out its duties.

Fulton’s executive compensation process consists of establishing targeted overall compensation for each Executive and then allocating that targeted total compensation among base salary, cash incentive compensation and equity awards. Fulton does not have a policy or an exact formula with regard to the allocation of compensation between cash and non-cash elements, except that the HR Committee has established a methodology and an award matrix for cash incentive compensation payments and equity awards under the 2013 Plan, as described in more detail below. Consistent with Fulton’s compensation philosophy, however, the HR Committee determines the amount of each type of compensation for the Executives by: reviewing publicly available executive compensation information of peer group companies (as defined and listed below); consulting with outside advisors and experts; considering the complexity, scope and responsibilities of the individual’s position; consulting with the CEO with respect to the other Executives; assessing possible demand for the Executives by competitors and other companies; and evaluating the compensation appropriate to attract executives to Fulton’s headquarters in Lancaster, Pennsylvania.

6. Role of Management

Management assists the HR Committee in recommending agenda items for its meetings and by gathering and producing information for these meetings. As requested by the HR Committee, the CEO, other Executives and other officers, including members of Fulton’s in-house corporate counsel, participate in HR Committee meetings to provide background information, compensation recommendations for other officers, performance evaluations and other items requested by the HR Committee. As part of the performance evaluation process, all the Executives meet with the CEO to discuss their overall performance. The CEO reviews the performance of the other Executives and shares his comments and recommendations with respect to the performance of the other Executives with the HR Committee. The HR Committee, without the CEO present, reviews the CEO’s overall performance and routinely has executive sessions without management present. The Executives are not present for the HR Committee’s discussions, deliberations and decisions with respect to their individual compensation. The HR Committee Charter, last amended in 2017, provides that the CEO may not be present during HR Committee voting or HR Committee deliberations regarding the CEO’s compensation. The Board of Directors, in executive session, with only the independent directors present, has historically made all final determinations regarding the compensation of the Executives, after considering recommendations made by the HR Committee.

7. Use of Consultants

The HR Committee retained McLagan, an Aon Hewitt Company, as independent compensation consultant for 2017. McLagan served as the independent compensation consultant for the HR Committee from June 2010 until October 2017. McLagan was originally retained by Fulton in 2009 for a compensation plan risk review project and performed a variety of assignments during 2017 at the direction of the HR Committee, including conducting a compensation market analysis related to Fulton's Executives, scorecard review, an overall compensation policy review, work related to the design of Fulton's incentive compensation plans, and providing general compensation advice regarding Fulton's Executives.

During 2017, McLagan was instructed by the HR Committee to compare Fulton's current compensation practices and executive compensation programs with those of Fulton's peers, evolving industry best practices and regulatory guidance. Based on that comparison, McLagan was asked to recommend changes in Fulton's executive compensation practices that were consistent with Fulton's executive compensation philosophy and objectives as described above. The specific instructions given to the consultant and fees to be paid were generally outlined in engagement letters that described the scope and performance of duties under each project. Fulton does not have a policy that limits the other services that an executive compensation consultant may perform. McLagan and its affiliates did not provide additional services to Fulton or its affiliates in 2017 with associated fees in excess of the \$120,000 threshold established under SEC rules and regulations requiring disclosure in this Proxy Statement.

At its February 21, 2017 meeting, the HR Committee considered the independence of McLagan in light of the SEC rules and NASDAQ listing standards related to compensation committee consultants. The HR Committee requested and received a report from McLagan addressing its independence as a compensation consultant to the HR Committee, including the following factors: (1) other services provided to Fulton by McLagan; (2) fees paid by Fulton as a percentage of McLagan's and Aon's total revenue; (3) policies or procedures maintained by McLagan that are designed to prevent a conflict of interest; (4) any business or personal relationships between the individual consultants performing work for the HR Committee and a member of the HR Committee; (5) any Fulton stock owned by the individual consultants performing work for the HR Committee; and (6) any business or personal relationships between Fulton's executive officers and the individual consultants performing work for the HR Committee. The HR Committee discussed these considerations and concluded that the work performed by McLagan and its consultants involved in the engagements did not raise any conflict of interest, and further concluded that McLagan continues to satisfy the applicable rules and standards related to the independence of compensation committee consultants.

Since McLagan had served as the HR Committee consultant since 2010, in the interest of good governance, in 2017 the HR Committee considered a number of compensation consultants, including McLagan, as part of a request for proposal for the 2018 consultant engagement. After reviewing responses and conducting in-person interviews of several consultants, the HR Committee approved the replacement of McLagan with Frederic W. Cook & Co., Inc. in late 2017.

8. Use of a Peer Group

In evaluating the market competitiveness of the compensation paid to the Executives, the HR Committee, with the assistance of its compensation consultant, regularly reviews the compensation paid to the Executives in comparison with the compensation paid to executives with similar responsibilities within a defined peer group of similar financial institutions. The HR Committee, with the assistance of McLagan, reviewed the composition of Fulton's peer group. Based on a review of the peer group in late 2016, the HR Committee, consistent with the recommendation of McLagan, approved the peer group appearing in the table below as the peer group for 2017 (the "2017 Peer Group").

The 2017 Peer Group was evaluated and selected based on a range of factors, including asset size, revenue composition, the number of employees, market capitalization, geographic focus, business model, and ownership profile. McLagan recommended that Fulton continue with the prior year peer group, except that FirstMerit Corporation be removed because it was acquired in 2016 and was no longer deemed appropriate for inclusion.

Aggregate statistical analysis of the executive compensation practices of the companies in the 2017 Peer Group was used by the HR Committee in the review of overall compensation and in setting 2017 base salaries for the Executives. During 2017, the 2017 Peer Group was also used as the peer group for the Performance Shares, as discussed below.

The following table provides the nineteen (19) members of the 2017 Peer Group, their stock trading symbols and the location of their principal executive offices:

2017 Peer Group	Ticker	City State
BancorpSouth, Inc. ¹	BXS	Tupelo MS
Commerce Bancshares, Inc.	CBSH	Kansas City MO
F.N.B. Corporation	FNB	Pittsburgh PA
Hancock Holding Company	HBHC	Gulfport MS
IBERIABANK Corporation	IBKC	Lafayette LA
MB Financial Inc.	MBFI	Chicago IL
Northwest Bancshares, Inc.	NWBI	Warren PA
Old National Bancorp	ONB	Evansville IN
PrivateBancorp, Inc. ²	PVTB	Chicago IL
Prosperity Bancshares, Inc.	PB	Houston TX
TCF Financial Corporation	TCB	Wayzata MN
Trustmark Corporation	TRMK	Jackson MS
UMB Financial Corporation	UMBF	Kansas City MO
Umpqua Holdings Corporation	UMPQ	Portland OR
United Bankshares Inc.	UBSI	Charleston WV
Valley National Bancorp	VLV	Wayne NJ
Webster Financial Corporation	WBS	Waterbury CT
Western Alliance Bancorp	WAL	Phoenix AZ
Wintrust Financial Corporation	WTFC	Rosemont IL

¹ On October 31, 2017, as part of a corporate reorganization, BancorpSouth, Inc. merged with and into BancorpSouth Bank, with BancorpSouth Bank continuing as the surviving entity.

² This Peer Group member was acquired, and, as provided for within the incentive plans and LTI Awards, was excluded from certain metrics and market comparisons during 2017.

9. Elements of Executive Compensation

Fulton's executive compensation program currently provides a mix of base salary, cash incentive and equity-based components, as well as retirement benefits, health plans and other benefits as follows:

Base Salary: Consistent with its compensation philosophy, Fulton generally seeks to set base salary for the Executives in line with the market median. Fulton sets salaries on an individual basis and seeks to provide base salary appropriate for the person's position, experience, responsibilities and performance.

In making recommendations to the Board of Directors regarding the appropriate base salaries for 2017, the HR Committee received a recommendation from its compensation consultant, which considered base salaries paid by members of the 2017 Peer Group to peer officers who held similar roles and who were positioned similarly to the Executives in their respective organizations. At its meeting in March 2017, after a review of the Executives' competitive positioning to market using 2017 Peer Group, analysis of internal pay equity data, the salary increases paid to other Fulton officers, recommendations from the CEO and an internal equity comparison report provided by McLagan, the HR Committee recommended, and the Board of Directors approved, base salary adjustments for the Executives effective with the payroll period including April 1, 2017, as set forth in the table below. Mr. Myers received a more substantial increase than that awarded to the other Executives based upon the recommendation of the HR Committee's consultant reflecting his increased responsibilities. Mr. McCollom's salary was similarly considered by the HR Committee and its consultant at the time of his hiring as Fulton's CFO designee to succeed Mr. Rohrbaugh as Fulton's Chief Financial Officer.

The base salaries for each of the Executives in 2016 and 2017, along with the annual percent increases for each Executive, were:

Executive	2016 Base Salary	2017 Base Salary	Annual % Increase
Wenger	\$973,936	\$998,284	2.50%
Rohrbaugh	\$518,347	\$531,306	2.50%
McCollom	-	\$425,000	-
Roda	\$411,406	\$421,691	2.50%
Myers	\$392,425	\$424,996	8.30%
Chivinski	\$345,857	\$354,503	2.50%

VCP Awards: Fulton’s VCP Awards are designed so that no annual cash incentive is paid unless Fulton achieves a predetermined ROE performance threshold and a net income goal. Once those thresholds are achieved, individual scorecards are utilized, which rely on a series of financial, business and risk metrics in several categories, with potential adjustment for positive or negative performance not reflected in the scorecards, in order to provide balance in the overall approach to determining annual cash incentives. The HR Committee set the 2017 ROE threshold at 6.264%, equivalent to 80% of Fulton’s budgeted ROE for 2017 of 7.83%, which was viewed as an attainable goal, but not a level which guaranteed payment of an annual cash incentive, to ensure that the Executives are paid for performance. For the 2017 VCP Awards, in addition to the ROE goal, the HR Committee included a positive net income trigger for the year intended to qualify the awards as performance-based compensation.

At its February 2018 meeting, the HR Committee determined that:

- The 2017 ROE threshold of 6.264% had been achieved, as Fulton had an actual 2017 ROE of 7.829%; and
- The 2017 positive net income trigger had been achieved, as Fulton had 2017 actual positive net income of \$171.8 million.

The VCP Awards were designed by the HR Committee to be substantially based on formulaic scorecard results with the HR Committee retaining discretion to adjust any VCP Award, as appropriate. The 2017 VCP Awards were determined pursuant to the terms and provisions of the 2013 Plan, and the HR Committee approved these awards as a Performance Compensation Award under Article 10 of the 2013 Plan.

In early 2017, the HR Committee reviewed and approved updated scorecards to be used for 2017 performance, which are outlined in the tables below. McLagan presented the initial design concept below to help simplify the VCP awards and to better align pay with performance. The 2017 scorecards recommended by the compensation consultant reduced the number of subcategories from nine to six, which were allocated among Financial Results, Risk Management and Business Objectives categories. McLagan also recommended increasing the weight of the Business Objectives to 15%, reducing the weight of the Risk Management category to 35%, using linear interpolation and removing the step-weighted measures that assess performance in discrete segments for actual performance, permitting a maximum payout for all factors, and continuing to allow for up to a 35% modifier as structured discretion whereby the scorecard sets the overall pool and then, to make adjustments up or down to align with performance and events not otherwise captured by the actual metrics. The following is a summary of the 2017 scorecard the HR Committee approved.

All the scorecards for 2017 contained the same financial performance metrics and similar risk management performance categories for each Named Executive Officer, including the CEO. Each Executive had Employee Engagement as his or her Business Objective. This objective was based on certain employee survey results from all of the employees that reported to each Executive. The CEO had a higher payout opportunity than the other Executives. The 2017 scorecard was assessed with possible scores ranging from 0 to 5 for each factor. Where scorecard results fall in between the scores for threshold, target and maximum award levels, the VCP Award is interpolated on a straight-line basis.

The VCP Awards were calculated based on scorecard results, with payouts to be made in accordance with the following matrix.

2017 VCP Award Matrix				
2017 Award Level	Scorecard Result	% of Target Award	CEO Payout as a % of Salary ¹	Other Executive Payout as a % of Salary ¹
Threshold	2.00	25.0%	21.3%	12.5%
Target	3.00	100.0%	85.0%	50.0%
Maximum	4.50	150.0%	127.5%	75.0%

¹ For purposes of determining VCP Awards, salary is the actual base salary paid to each Executive during 2017 and listed in the Summary Compensation Table on Page 45.

At its March 2018 meeting, the HR Committee reviewed the Executives' overall 2017 performance and scorecard results, and determined that each of the Executives achieved a level of performance in 2017 that qualified for a VCP Award above target based on total scorecard results. The HR Committee reviewed the results for each of the scorecard performance subcategories and particular attention was paid to the Financial Results. The HR Committee considered several notable events that impacted Fulton and its performance in 2017 and the Executives' 2017 scorecard. The HR Committee evaluated Fulton's 2017 as reported earnings per share ("EPS") of \$0.976, ROA of 0.877% and ROE of 7.829% and considered the impact on those measures of the enactment of the Tax Cuts and Jobs Act, which resulted in Fulton recording an estimated \$15.6 million charge to income taxes for the re-measurement of net deferred tax assets (the "2017 Tax Charge"), and net gains of \$9.1 million realized on the sale of investment securities (the "2017 Securities Gains"), which arose primarily from the sale of substantially all of Fulton's investments in financial institution common stocks. As permitted under the 2013 Plan, the Committee determined that for purposes of evaluating the Financial Results category of the Executives' scorecards, the EPS and ROE for 2017 would be adjusted by excluding the 2017 Tax Charge and the 2017 Securities Gains. After excluding these amounts, the Committee used adjusted measures for EPS of \$1.032, ROA of 0.927% and ROE of 8.273% for purposes of assessing the Executives' scorecard performance for 2017.

The following is a summary of the 2017 Executive scorecards and results used for the 2017 VCP Awards.

2017 Executive Scorecard ¹									
Performance Categories	Performance Sub-categories								
Financial Results (50% Weight)	Score Rating	0	1	2	3	4	5	Weight	Final Score
				Threshold	Target		Maximum		
	• EPS	< \$0.883	\$0.883	\$0.932	\$0.981	\$1.030	> \$1.079	30%	4.03
• ROE	< 7.043%	7.043%	7.435%	7.826%	8.217%	> 8.609%	20%	4.14	
Risk Management (35% Weight)								Weight	Final Score
	• Capital Ratings, Liquidity and Market Risk							15%	3.00
	• Asset Quality: Non-performing Assets to Total Assets							15%	3.00
Business Objectives (15% Weight)								Weight	Final Score ²
	• Corporate Rollup-Regulatory Exams (Compliance)							5%	2.00
	• Employee Engagement Index							15%	2.80

¹ Mr. McCollom did not have a scorecard since he was hired in late-2017.

² This score is the average of the employee engagement index scores for all the Executives with scorecards in 2017.

The HR Committee has authority to exercise its discretion to increase or decrease the calculated VCP Awards and has previously applied this discretion to help maintain proper alignment between scorecard results and incentive awards by taking other factors into account. Using the modifier feature adopted for the 2017 VCP Awards, the HR Committee may increase or decrease an Executive's VCP Award by up to 35% on an individual basis, provided that it does not cause an Executive's VCP Award to exceed 150% of that Executive's VCP Award target. The HR Committee adopted the modifier feature to help ensure that VCP Awards appropriately reflect risk and unexpected circumstances that arise during the year, to account for the possibility of unintended outcomes determined solely by a formula, and to more appropriately align pay with performance in cases where formulaic scores do not fully reflect all aspects of Fulton's and individual performance results for the year.

For 2017, the initial calculated VCP Awards averaged approximately 114% of target for the CEO and the other Executives. The HR Committee reviewed these calculated scores and resulting award levels based on the 2017 scorecard results in the context of Fulton's and the Executives' performance during 2017, and then determined that a downward adjustment to the initial calculated award level was appropriate. The HR Committee therefore exercised its discretion under the modifier feature for the 2017 VCP Awards and decreased calculated awards by 5.00% for the CEO, and up to 7.5% for the other Executives. In reducing 2017 VCP Awards the HR Committee considered, among other factors, adjustments it made as a result of the 2017 Tax Charge and the 2017 Securities Gains that increased the EPS and ROE financial results in the scorecards.

The following is a tabular summary of the 2017 scorecard Target VCP Awards, the actual 2017 VCP paid, and the VCP Award's percent to target for each Executive.

Executive¹	Target VCP	VCP Paid²	% of Target
Wenger	\$843,765	\$892,422	105.8%
Rohrbaugh	\$264,158	\$279,391	105.8%
Roda	\$209,659	\$226,831	108.2%
Myers	\$208,740	\$225,836	108.9%
Chivinski	\$176,254	\$197,816	112.2%
Total	\$1,702,576	\$1,822,296	107.0%

¹ Mr. McCollom was awarded a discretionary 2017 cash bonus consistent with the terms of his employment agreement.

² VCP Awards paid to each Executive for 2017 are listed in the Summary Compensation Table on Page 45.

Equity Awards: For 2017, the number of Performance Shares granted to each of the Executives generally represents a target dollar amount of Performance Shares established by the HR Committee, based on recommendations from McLagan, equal to 125% of base salary, as of January 1, 2017, for the CEO and 75% of base salary, as of January 1, 2017, for the other Executives, and assuming a value for each Performance Share equal to the closing price of Fulton’s common stock on the grant date. For 2017, the HR Committee awarded Performance Shares above target dollar amount to Mr. Rohrbaugh and Ms. Chivinski, as described below. The Performance Shares were granted to the Executives on May 1, 2017. The actual number of shares of Fulton common stock, if any, that the Executives may receive upon vesting of the Performance Shares on the third anniversary of the date of grant may be higher or lower than the number of Performance Shares granted to the Executives. The aggregate number of Performance Shares granted to each of the Executives was allocated by the HR Committee among three components, each having different performance criteria and vesting terms, as summarized below:

2017 Equity Award Structure

		2017 (Year of grant)	2018	2019	2020
37.5% Allocation A – ROA with Profit Trigger	Component A	Grant			
	Performance Period	January 1, 2017 to December 31, 2017			
	Vesting	Relative ROA to Peer Group for one year, then two additional years of vesting based on Performance Shares earned for 2017 conditioned on achievement of the Profit Trigger			
37.5% Allocation B – TSR	Component B	Grant			
	Performance Period	May 1, 2017 to March 31, 2020			
	Vesting	Relative TSR to Peer Group determines the number of Performance Shares earned for the performance period in 2020 (no Profit Trigger)			
0% to 37.5% Allocation C – Time-Based with Profit Trigger	Component C	Grant			
	Vesting	3-year Time-Based cliff vesting of Performance Shares conditioned on achievement of the Profit Trigger			

The performance goals and potential payouts for ROA and TSR Components A and B for 2017 were:

Category	Component A Performance Criteria	Component A Payout Potential (% of target)	Component B Performance Criteria	Component B Payout Potential (% of target)
Threshold	25 th Percentile ROA	0%	25 th Percentile TSR	0%
Target	50 th Percentile ROA	100%	50 th Percentile TSR	100%
Maximum	80 th Percentile ROA	150%	80 th Percentile TSR	150%

The following provides more detail related to the 2017 Components:

<p>Component A (ROA with Profit Trigger) 37.5% Target</p>	<ul style="list-style-type: none"> • Component A, representing 37.5% of the target dollar amount of Performance Shares granted, for which the number of shares of Fulton common stock that may be received upon vesting is based on Fulton’s 2017 ROA measured relative to the 2017 Peer Group and further conditioned upon Fulton achieving the Profit Trigger. • Based on Fulton’s relative 2017 ROA performance, the number of Performance Shares that may vest was reduced to 58.73% of the original number of Component A Performance Shares granted to the Executives to reflect performance between the threshold and target levels, interpolated on a straight-line basis. The potential number of Component A Performance Shares that may vest, if the Profit Trigger is achieved, will not further change during the remainder of the three-year performance period, except for the accrual of dividend equivalents on the Component A Performance Shares that actually vest.
<p>Component B (TSR) 37.5% Target</p>	<ul style="list-style-type: none"> • Component B, representing 37.5% of the target dollar amount of Performance Shares granted, for which the number of shares of Fulton common stock that may be received upon vesting of the Performance Shares will be determined based on Fulton’s TSR during the period from May 1, 2017 through March 31, 2020 relative to that of the 2017 Peer Group.
<p>Component C (Time-Based with Profit Trigger) 25% Target</p>	<ul style="list-style-type: none"> • Component C, representing 25% of target dollar amount for the Executives, unless the HR Committee has exercised discretion to vary the award (from 0 to 37.5% of the targeted amount of Performance Shares). • All the Named Executive Officers received a Component C award at 25 % of target, except Mr. Rohrbaugh and Ms. Chivinski, who received 37.5% and 34.6% of target dollar amount, respectively. The Executives will receive all or none of these Performance Shares, subject to achievement of the Profit Trigger. For Mr. Rohrbaugh, the HR Committee awarded Component C Performance Shares greater than the target dollar amount in recognition of his efforts as interim CFO and other contributions to the Corporation in 2016 as Chief Operating Officer. For Ms. Chivinski, her award of Component C Performance Shares was greater than the target dollar amount because of her efforts as the new Chief Risk Officer, and the fact that her 2016 LTI award was granted based on her position prior to assuming the role of Chief Risk Officer, as well as her other contributions to Fulton in 2016.

Performance Shares that actually vest, together with dividend equivalents accrued during the performance period on those Performance Shares, are settled in shares of Fulton common stock on a 1-for-1 basis after the expiration of the three-year performance period and satisfaction of vesting criteria under the 2013 Plan. Further, Components A and B are adjusted after their respective one- and three-year performance periods, but are forfeited if the corresponding threshold performance level for TSR or ROA is not achieved. Components A and C are also forfeited if the Profit Trigger is not achieved. Finally, if the Executive does not satisfy the continuous service requirement in the 2013 Plan, all Performance Shares are forfeited.

Based on the level of Fulton’s achievement of ROA in 2017, only 58.73% of the Component A Performance Shares originally granted to the Executives in 2017, subject to the Profit Trigger, were earned. This reduction was after giving effect to Fulton’s reported ROA of 0.877%, and as adjusted by the HR Committee to 0.927%, due to the 2017 Tax Charge and the 2017 Securities Gains as described above, for the year ended December 31, 2017. Fulton’s as adjusted 2017 ROA performance was measured relative to the 2017 Peer Group at the 39.7 percentile, which fell between threshold and target levels.

The following table depicts the grant date fair value of the Performance Shares, the total number of Performance Shares at target performance, and the allocation of the Performance Shares among Components A, B and C granted to each of the Executives on May 1, 2017.

Executive	Grant Date Fair Value of Performance Shares ¹	Total Performance Shares Awarded ²	Component A (ROA Goal) Shares Awarded ³	Component B (TSR Goal) Shares Awarded	Component C Shares Awarded ⁴
Wenger	\$1,182,002	65,102	24,413	24,413	16,276
Rohrbaugh	\$426,051	23,387	7,796	7,796	7,795
Roda	\$299,598	16,500	6,188	6,188	4,124
Myers	\$285,757	15,738	5,902	5,902	3,934
Chivinski	\$276,860	15,208	5,202	5,202	4,804

¹ See note 4 to the Summary Compensation Table on Page 45 for additional information regarding the grant date fair value of the Performance Shares. Mr. McCollom, who was hired in November 2017, did not receive a Performance Share Award in 2017.

² Shares listed do not include accrued dividend equivalents.

³ Based on Fulton's ROA for the year ended December 31, 2017, the number of Component A Performance Shares that may vest, subject to the achievement of the Profit Trigger, has been reduced to: 14,337 for Mr. Wenger; 4,578 for Mr. Rohrbaugh; 3,634 for Mr. Roda; 3,466 for Mr. Myers and 3,055 for Ms. Chivinski. Such shares may be further reduced to zero if the Profit Trigger is not met at the end of the performance period.

⁴ The HR Committee awarded shares above the 25% target amount for Mr. Rohrbaugh and Ms. Chivinski.

Employee Stock Purchase Plan: The Employee Stock Purchase Plan ("ESPP") was designed to advance the interests of Fulton and its shareholders by encouraging Fulton's employees and the employees of its subsidiary banks and other subsidiaries to acquire a stake in the future of Fulton by purchasing shares of the common stock of Fulton. Currently, Fulton limits payroll deduction and annual employee participation in the ESPP to \$7,500. The Executives participating in the ESPP are eligible to purchase shares through the ESPP at a discount, currently 15%, on the same basis as other Fulton employees participating in the ESPP.

Defined Contribution Plan – 401(k) Plan: Fulton provides a qualified defined contribution plan, in the form of a 401(k) Plan, to the Executives and other employees and provides for employer matching contributions that satisfy a non-discrimination "safe-harbor" available to 401(k) retirement plans. This safe-harbor employer matching contribution is equal to 100% of each dollar a participant elects to contribute to the 401(k) Plan, but the amount of contributions that are matched by Fulton is limited to 5% of eligible compensation. The Executives participating in the 401(k) Plan are eligible to receive the same employer matching contribution as other Fulton employees participating in the 401(k) Plan.

Deferred Compensation Plan: Fulton's nonqualified deferred compensation plan permits directors and advisory board members to elect to defer receipt of cash director fees and certain eligible senior officers can elect to defer receipt of cash compensation. It also enables Fulton to credit certain senior officers, including the Executives, with full employer matching contributions each year equal to the contributions they would have otherwise been eligible to receive under the 401(k) Plan, if not for the limits imposed by the Internal Revenue Code, as amended (the "Tax Code") on the amount of compensation that can be taken into account under a tax-qualified retirement plan. Fulton's deferred compensation contributions for the Executives in 2017 are stated in footnote 8 of the "Summary Compensation Table" on Page 45. The deferred compensation plan accounts of each participant are held and invested under the Fulton Nonqualified Deferred Compensation Benefits Trust, with FFA, serving as trustee. The participants are permitted to individually direct the investment of the deferred amounts into various investment options under the Nonqualified Deferred Compensation Benefits Trust.

Death Benefits: The estates of each of the Executives are eligible for a payment equal to two (2) times base salary (plus an amount equal to applicable individual income taxes due on such amounts) from Fulton pursuant to individual Death Benefit Agreements between Fulton and each Executive, should the Executive die while actively employed by Fulton. Upon the Executive's retirement, the post retirement benefit payable upon the individual's death is reduced to \$5,000 for Mr. Wenger, Mr. Roda, and Ms. Chivinski in their Death Benefit Agreements, while the Death Benefit Agreements for the other Executives do not provide for any retiree death benefit payment. Fulton does not provide retiree death benefits for its full-time employees unless specifically provided for in an employee's Death Benefit Agreement.

Health, Dental and Vision Benefits: Fulton offers a comprehensive benefits package for health, dental and vision insurance coverage to all full-time employees, including the Executives, and their eligible spouses and children. Fulton pays a portion of the premiums for the coverage selected, and the amount paid varies with each health, dental and vision plan. All of the Executives have elected one of the standard employee coverage plans available.

Other Executive Benefits: Fulton provides the Executives with a variety of perquisites and other personal benefits that the HR Committee believes are necessary to facilitate the conduct of Fulton's business by the Executives and are reasonable and consistent with the overall compensation program for the CEO and the other Executives. In addition, these benefits enable Fulton to attract and retain talented senior officers for key positions, as well as provide the Executives and other senior officers with opportunities to be involved in their communities and directly interact with current and prospective customers of Fulton. The 2017 amounts are included in the "All Other Income" column of the "Summary Compensation Table" on Page 45 of this Proxy Statement. The Executives are provided with company-owned automobiles or a car allowance, club memberships and other executive benefits consistent with their positions. Fulton does not have a direct or indirect interest in any corporate aircraft. Generally, the Executives travel on commercial aircraft, by train or in vehicles provided by Fulton. In addition, if spouses accompany an Executive when traveling on business or attending a corporate event, Fulton pays the travel and other expenses associated with certain spousal travel for the Executive. Fulton also includes spousal travel and personal vehicle use as part of the Executive's reported W-2 income.

10. Employment Agreements

Fulton believes that a company should provide reasonable severance benefits to employees. For most employees, Fulton has a policy that, in general, provides for severance benefits to be paid upon a reduction in force or position elimination. These severance arrangements are intended to provide the employees with a sense of security in making the commitment to dedicate their professional careers to the success of Fulton. With respect to the Executives and certain other employees, the severance benefits provided reflect the fact that it may be difficult for them to find comparable employment within a reasonable period of time. The levels of these benefits for the Executives in the event of a change in control of Fulton are discussed in footnote 6 in the "Potential Payments Upon Termination and Golden Parachute Compensation Table" on Page 52 under "Termination Without Cause or for Good Reason – Upon or After a Change in Control".

Fulton has entered into employment agreements with certain of its key employees, including each of the Executives. Fulton's employment agreement with Mr. Wenger was entered into on June 1, 2006, and amended on November 12, 2008. Fulton's employment agreements with Messrs. Roda and Rohrbaugh were entered into on August 1, 2011 and November 1, 2012, respectively. In addition, Fulton entered into separate employment agreements and change in control agreements with Mr. McCollom, Mr. Myers and Ms. Chivinski, all effective as of January 1, 2018. The employment agreements and change in control agreements with the Executives (individually, an "Employment Agreement," and collectively, the "Employment Agreements"), continue until terminated, and each provides that the Executive is to receive a base salary, which is set annually, is entitled to participate in Fulton's incentive bonus programs as in effect from time to time, and will participate in Fulton's retirement plans, welfare benefit plans and other benefit programs.

The Employment Agreements with the Executives contain restrictions on the sharing of confidential information, as well as non-competition and non-solicitation covenants that continue for one year following termination of employment. The non-competition and non-solicitation covenants will not apply if the Executive terminates employment for good reason or if the Executive's employment is terminated without cause, as defined in the Employment Agreements. These provisions of the Employment Agreements are further outlined in the "Potential Payments Upon Termination and Golden Parachute Compensation Table" section on Page 52. The Employment Agreements Fulton executed with Messrs. Rohrbaugh, McCollom, Roda and Myers and Ms. Chivinski do not contain an excise tax gross-up for taxes applicable to termination payments as a result of the Executive's termination, but the Employment Agreement executed with Mr. Wenger, the only legacy agreement, provides for an excise tax gross up. The Employment Agreements with Messrs. Rohrbaugh, McCollom, Roda, Myers and Ms. Chivinski provide that, in the event a payment to be made in connection with their termination of employment would result in the imposition of an excise tax under Section 4999 of the Tax Code, such payment would be retroactively reduced, if necessary, to the extent required to avoid such excise tax imposition and, if any portion of the amount payable the Executive is determined to be non-deductible pursuant to the regulations promulgated under Section 280G of the Tax Code, Fulton would be required to pay to the Executive only the amount determined to be deductible under Section 280G.

11. Compensation Plan Risk Review

At its February 2018 meeting, the HR Committee conducted its annual risk review of all compensation plans in effect as of December 31, 2017. At this meeting, Ms. Chivinski, Fulton's Chief Risk Officer ("CRO"), discussed her review of Fulton's compensation plans. The CRO informed the HR Committee that based on her review, the design of Fulton's compensation plans do not promote undue risk-taking. The HR Committee has reviewed and considered all of such plans and practices and does not believe that Fulton's compensation policies and practices create risks that are reasonably likely to have a material adverse effect on Fulton.

The HR Committee considered various factors that have the effect of mitigating risk and, with the assistance of Fulton's CRO, Legal and Human Resources staff members, reviewed Fulton's compensation policies to determine whether any portion of such compensation encourages excessive risk-taking. To assist in the annual review, Fulton retained Pearl Meyer & Partners ("PM&P") to conduct an independent third-party risk assessment of the design, operation and oversight of Fulton's primary incentive plans, including all plans in which the Executives and other employees identified by Fulton as potential material risk takers participated. Fulton initially retained PM&P for this purpose in 2013, and engaged PM&P to update its risk assessment annually from 2014 through 2017.

12. Other Compensation Elements

162(m) and Tax Consequences: Section 162(m) of the Tax Code disallows the deductibility by Fulton of any compensation over \$1 million per year paid to certain employees and the Executives. Although Fulton takes into account its ability to deduct compensation expense in determining its taxable income, tax deductibility is not a primary objective of its compensation programs and Fulton does not have policy requiring that all compensation be deductible. Further, the 2017 Tax Cuts and Jobs Act impacted the deductibility under the Tax Code of compensation paid to the Executives.

409A Changes: Section 409A of the Tax Code, effective January 1, 2005, defines what constitutes a "nonqualified deferred compensation plan", conditions income tax deferrals under such plans on their compliance with certain distribution, acceleration, election and funding restrictions, and also imposes excise tax and interest penalties for noncompliance. In order to preserve intended tax deferrals and to avoid the imposition of excise taxes and interest penalties, Fulton has identified all such nonqualified deferred compensation plans it maintains and to the extent necessary, timely amended each to meet the Section 409A requirements to alter the administration of each, where necessary, to comply with Section 409A.

Discussion of Equity Award Process: Fulton does not have a formal written policy as to when equity awards are granted during the year. In March 2017, Fulton awarded Performance Shares and time-based restricted stock units to eligible participants under the 2013 Plan with a grant date of May 1, 2017, so that the equity awards could be considered by the HR Committee at the same time as the cash incentive awards under the 2013 Plan. Fulton does not backdate options or grant options retroactively, and does not coordinate option grants with the release of positive or negative corporate news. The 2013 Plan, which amended and restated the 2004 Stock Option and Compensation Plan, does not permit the award of discounted options, the reload of stock options, or the re-pricing of stock options. Pursuant to the terms of the 2013 Plan, option prices are determined based on the closing price on the grant date. Under the 2013 Plan, an option exercise price may not be less than 100% of the fair market value of Fulton's stock on the date of grant. The 2013 Plan defines fair market value to be the closing price on the date of grant, or if no sales of shares were reported on any stock exchange or quoted on any interdealer quotation system on that day, the price on the next preceding trading day on which such price was quoted.

Stock Hedging Policy and Stock Trading Procedures: Fulton has adopted an Insider Trading Policy and Compliance Procedures to facilitate securities law compliance in a number of areas. Pursuant to this policy, Fulton requires that all directors, officers, and employees of Fulton and its affiliates adhere to certain procedures when trading in Fulton common stock or any other security issued by Fulton or its subsidiaries. Among other requirements, directors, officers and employees of Fulton and its subsidiaries that know of material, non-public information about Fulton may not (i) buy or sell Fulton stock while the information remains non-public, or (ii) disclose the information to relatives, friends or any other person. In addition, the Executives and directors of Fulton and Fulton's banking subsidiaries and certain other officers are prohibited from engaging in speculative transactions involving Fulton's securities. This prohibition encompasses "short sales" and "puts," along with other trading that anticipates a decline in price. These instruments can involve "a bet against Fulton," raise issues about the insider knowledge of the person involved or create a conflict of interest and are therefore prohibited by Fulton's policy. In 2014, Fulton updated the

Insider Trading Policy and Compliance Procedures to prohibit the pledging of shares, but grandfathered any pledges made prior to the amendment. None of the Fulton’s current directors or the Named Executive Officers currently pledge any shares of Fulton common stock.

Stock Ownership Guidelines: Fulton believes that broad-based stock ownership by directors, officers and employees is an effective method to align the interests of its directors, officers and employees with the interests of its shareholders. In 2009, Fulton first adopted Governance Guidelines that included a formal Fulton common stock ownership guideline for directors and the Executives. The director ownership guidelines were updated in September 2013, and each director is presently required to own at least \$175,000 of Fulton common stock, which is five (5) times the annual director cash retainer of \$35,000, within the later of five (5) full calendar years of first becoming a director, or five (5) full calendar years after the guideline was changed.

A similar stock ownership requirement exists for the Executives. The guidelines for the Executives were last updated and approved in 2017, with the recommended ownership guidelines calculated as a multiple of the Executive’s annual base salary, depending upon the position of the Executive as follows:

Executive Position	CEO	President	CFO	Other Executives
Fulton Common Stock Ownership Guideline as a Multiple of Annual Base Salary	3.0	1.5	1.5	1.0

Compliance with the stock ownership guidelines is determined annually based on stock ownership and Fulton’s closing stock price as of December 31 of the prior year. Ownership excludes stock options and other unvested restricted stock or Performance Share Awards, but includes all other shares beneficially owned and reported on an individual’s Form 3, Form 4 or Form 5 filed with the SEC, including shares held in retirement accounts, indirect ownership and jointly held shares. Once an Executive or director has achieved the ownership guideline, he or she remains in compliance with the ownership guideline regardless of changes in base salary or the price of Fulton’s common stock, as long as he or she retains the same number of shares or a higher amount. However, if an Executive is promoted to CEO, President or CFO with a base salary increase, he or she would be permitted to satisfy the new stock ownership requirement for the new position and base salary over a period of five (5) full calendar years.

Except for Mr. McCollom, all of the Executives have satisfied the stock ownership guidelines for 2017. Mr. McCollom is required to achieve his targeted stock ownership by December 31, 2022, to satisfy the stock ownership guidelines for his position. As of December 31, 2017, all of Fulton’s directors have satisfied the stock ownership guidelines, except Directors Crutchfield, Snyder and Spair. Under the stock ownership guidelines, Directors Crutchfield, Snyder and Spair are each required to achieve the targeted stock ownership level by December 31, 2019, December 31, 2021 and December 31, 2020, respectively.

Management Succession: The topic of management succession is discussed and reviewed at least annually at Fulton. At the December 2017 meeting of the Board of Directors, during an executive session of the Board of Directors, senior officers in Fulton’s Human Resources Department discussed and reviewed the succession planning processes used by management to identify successors for each Executive at Fulton.

Clawback Policies: In 2016, the HR Committee amended Fulton’s Compensation Recovery Clawback Policy (“Clawback Policy”) to govern clawback provisions for all participants, including the Executives, in the 2013 Plan, and subject to limited exceptions, other incentive compensation plans. The Clawback Policy identifies the events, such as: 1) a restatement of Fulton’s, or any affiliate’s, financial statements (other than a restatement caused by a change in applicable accounting rules or interpretations), the result of which is that any performance-based compensation paid would have been lower, had it been calculated based on such restated results; 2) the discovery that a performance metric or calculation used in determining performance-based compensation was materially inaccurate; 3) a violation of Fulton’s Code of Conduct, the result of which creates a significant financial or reputational impact for Fulton; and 4) a departing or departed employee has allegedly violated the non-solicitation restrictions set forth in Fulton’s employment policies or such employee’s employment agreement.

In addition, the Dodd-Frank Wall Street Reform and Consumer Protection Act mandates that the SEC adopt rules that require publicly traded companies to adopt a formal clawback policy. Pending final clawback rules from the SEC, the HR Committee will continue to monitor and consider the use of clawbacks and update the Clawback Policy for any new or amended compensation agreements and plans with the Executives and other employees. During 2017, the HR Committee was not asked to consider any instance or situation where a clawback may have been required or attempted for a Named Executive Officer or other officer of Fulton.

Human Resources Committee Report

The HR Committee reviewed and discussed the foregoing Compensation Discussion and Analysis with management and, based on the review and discussions, the HR Committee recommended to the Board of Directors that the Compensation Discussion and Analysis above be incorporated in Fulton's Annual Report on Form 10-K for the year ended December 31, 2017, and the 2018 Proxy Statement, as applicable.

As described above in the Compensation Discussion and Analysis section, in performing its compensation risk evaluation, the HR Committee met with the CRO regarding the material risks facing Fulton, and consulted with Legal and Human Resources personnel about Fulton's various compensation plans. Based on the foregoing review, the HR Committee concluded that Fulton's compensation policies and practices in 2017 did not create risks that are reasonably likely to have a material adverse effect on Fulton.

Human Resources Committee

Denise L. Devine, Chair
Mark F. Strauss, Vice Chair
Patrick J. Freer
George W. Hodges
Ronald H. Spair

SUMMARY COMPENSATION TABLE

Name and Principal Position ¹	Year	Salary ² (\$)	Bonus ³ (\$)	Stock Awards ⁴ (\$)	Option Awards ⁵ (\$)	Non-Equity Incentive Plan Compensation ⁶ (\$)	Change in Pension Value and Non-qualified Deferred Compensation Earnings ⁷ (\$)	All Other Compensation ⁸ (\$)	Total (\$)
E. Philip Wenger Chairman and Chief Executive Officer of Fulton	2017	992,665	0	1,182,002	0	892,422	0	107,889	3,174,978
	2016	968,454	0	1,202,927	0	700,119	0	88,680	2,960,180
	2015	944,103	0	952,117	0	353,094	0	116,656	2,365,970
Philmer H. Rohrbaugh ⁹ Senior Executive Vice President and Chief Financial Officer of Fulton	2017	528,316	0	426,051	0	279,391	0	16,336	1,250,094
	2016	506,075	0	374,185	0	225,457	0	16,299	1,122,016
	2015	478,543	0	289,550	0	112,458	0	13,314	893,865
Mark R. McCollom ¹⁰ Senior Executive Vice President and Chief Financial Officer of Fulton	2017	49,038	125,000	249,984	0	0	0	1,325	425,422
	2016	-	-	-	-	-	-	-	-
	2015	-	-	-	-	-	-	-	-
Craig A. Roda ¹¹ Senior Executive Vice President of Fulton	2017	419,318	0	299,598	0	226,831	0	48,449	994,196
	2016	409,091	0	278,758	0	120,119	0	42,116	850,084
	2015	398,805	0	241,310	0	92,722	0	41,578	774,415
Curtis J. Myers President and Chief Operating Officer of Fulton	2017	417,480	0	285,757	0	225,836	0	50,261	979,334
	2016	388,113	0	259,561	0	184,354	0	55,107	887,135
	2015	371,347	0	224,687	0	144,825	0	51,224	792,083
Beth Ann L. Chivinski ¹² Senior Executive Vice President and Chief Risk Officer of Fulton	2017	352,508	0	276,860	0	197,816	0	31,753	858,937
	2016	-	-	-	-	-	-	-	-
	2015	-	-	-	-	-	-	-	-

¹ Titles and positions listed are as of Fulton's fiscal year-end of December 31, 2017, except for Mr. McCollom, who became Fulton's Chief Financial Officer on March 2, 2018. Mr. Rohrbaugh served as Fulton's interim Chief Financial Officer from December 6, 2016 to March, 1, 2018. Mr. Myers was promoted to serve as Fulton's President and Chief Operating Officer effective January 1, 2018. Prior to January 1, 2018, Mr. Wenger held the additional title of President of Fulton.

² This represents the base salary amounts paid to and earned by each of the Executives named in this table for the years indicated. On March 21, 2018, upon the recommendation of the HR Committee, the Board of Directors approved 2018 annual base salaries for Mr. Wenger and Ms. Chivinski to \$1,023,241, and \$381,091, respectively, and changes to annual base salaries were effective with the biweekly pay period that includes April 1, 2018. Mr. Myers also received an increase to \$510,000, effective January 1, 2018, with his promotion to President and Chief Operating Officer of Fulton.

³ The HR Committee did not award any bonus payments in 2015, 2016 or 2017 to the Executives, except Mr. McCollom received a cash bonus upon his acceptance of employment with Fulton and a discretionary 2017 bonus approved by the HR Committee.

⁴ Amounts represent the grant date fair values of Performance Shares, except that for Mr. McCollom, the amount listed represents the grant date fair value, based on \$18.00 per share, of a time-based restricted stock unit award of 13,888 shares, which will vest three years from the date of grant. There were no forfeitures of Performance Shares during 2014, 2015 and 2016 by any of the Executives.

The following is a summary of the grant date fair values of the Performance Shares granted to the Executives in 2017, 2016 and 2015.

Name	Grant Date	Performance Share Grant Date Fair Value Assuming Highest Performance Level Achieved (\$)	Number of Performance Shares Granted Executive (#)	Per Share Grant Date Fair Value With Non-Market Conditions (\$)	Per Share Grant Date Fair Value With Market Conditions (\$)	Weighted Average Per Share Grant Date Fair Value (\$)
E. Philip Wenger	5/1/2017	1,620,832	65,102	18.70	17.25	18.17
	5/1/2016	1,604,382	92,265	13.99	11.23	13.01
	4/1/2015	1,501,569	93,788	12.325	10.66	11.73
Philmer H. Rohrbaugh	5/1/2017	566,166	23,387	18.70	17.25	18.17
	5/1/2016	496,279	28,657	13.99	11.23	13.01
	4/1/2015	456,661	28,523	12.325	10.66	11.73
Craig A. Roda	5/1/2017	410,807	16,500	18.70	17.25	18.17
	5/1/2016	380,502	21,517	13.99	11.23	13.01
	4/1/2015	380,568	23,770	12.325	10.66	11.73
Curtis J. Myers	5/1/2017	391,831	15,738	18.70	17.25	18.17
	5/1/2016	354,307	20,036	13.99	11.23	13.01
	4/1/2015	354,357	22,133	12.325	10.66	11.73
Beth Ann L. Chivinski	5/1/2017	370,353	15,208	18.70	17.25	18.17

In the table above, the per share grant date fair value for Performance Shares with non-market-based performance conditions was equal to the closing price of Fulton common stock on the date the shares were granted. The per-share grant date fair value for Performance Shares granted with market-based performance conditions is estimated based on the use of a Monte Carlo valuation methodology. For additional information concerning the valuation of Performance Shares with market-based performance conditions granted in 2015, 2016 and 2017, including the assumptions made in determining those valuations, see Fulton's Annual Report on Form 10-K for the years ended December 31, 2015, December 31, 2016 and December 31, 2017, respectively, under Item 8 – Financial Statements and Supplementary Data, “Note 15 – Stock-Based Compensation Plans.”

⁵ Fulton did not grant options in 2015, 2016 or 2017 to the Executives and there were no forfeitures of options during 2015, 2016 or 2017 by any of the Executives. The 2005 grants expired unexercised in 2015, including the following number of options by Executive: Mr. Wenger – 40,687; Mr. Myers – 6,037; and Mr. Roda – 21,000. The 2006 grants expired unexercised in 2016, including the following number of options by Executive: Mr. Wenger – 24,000; Mr. Roda – 16,000; and Mr. Myers – 5,500.

⁶ The VCP Awards reported in this column are substantially based performance goal achievement and on individual scorecard results as described further beginning on Page 35.

⁷ Fulton has determined that the Executives did not receive above-market earnings on their nonqualified deferred compensation plan accounts, and therefore, such earnings are not required to be reported in this column for 2015, 2016 or 2017. All participants in the nonqualified deferred compensation plan, which also includes senior officers other than the Executives, are permitted to select various investment options listed in footnote 2 of the “Nonqualified Deferred Compensation Table” on Page 51. The rate of return for an individual participant’s account is based on the performance of the various investment options selected by each participant.

⁸ All Other Compensation includes Fulton’s payments for qualified employer matching contributions, nonqualified employer matching contributions, club membership fees, automobile perquisites, plus other personal benefits received by each of the Executives. The methodology used to calculate the aggregate incremental cost of perquisites and other personal benefits was to use the amount disbursed for the items. Where a benefit involved assets owned by Fulton, an estimate of the incremental cost was used. The automobile perquisite amounts include the financial benefit that the Executive received, such as the personal use value of a company award automobile or the taxable auto allowance, as reported on their W-2. The “Other Perquisites” column in the table below includes personal travel, and other small benefits that individually are less than the greater of \$25,000, or ten percent of all perquisites received by the Executive.

Name	Year	Qualified Retirement Plan Company Contribution (\$)	Nonqualified Deferred Compensation Plan Company Contribution (\$)	Club Memberships (\$)	Automobile Perquisites (\$)	Other Perquisites (\$)	Total All Other Compensation (\$)
E. Philip Wenger	2017	13,500	71,139	17,547	3,600	2,103	107,889
	2016	13,250	52,827	16,303	3,510	2,790	88,680
	2015	13,250	51,277	16,287	3,543	32,299	116,656
Philmer H. Rohrbaugh	2017	0	0	14,664	150	1,522	16,336
	2016	0	0	13,832	1,567	900	16,299
	2015	0	0	13,314	0	0	13,314
Mark R. McCollom	2017	0	0	0	1,250	75	1,325
	2016	-	-	-	-	-	-
	2015	-	-	-	-	-	-
Craig A. Roda	2017	13,451	13,785	14,094	316	6,803	48,449
	2016	13,027	11,841	14,782	290	2,176	42,116
	2015	12,977	10,114	14,382	3,147	958	41,578
Curtis J. Myers	2017	13,500	16,592	15,985	3,284	900	50,261
	2016	13,042	13,681	17,078	3,306	8,000	55,107
	2015	12,879	9,284	16,992	3,251	8,818	51,224
Beth Ann L. Chivinski	2017	13,500	11,753	0	5,600	900	31,753
	2016	-	-	-	-	-	-
	2015	-	-	-	-	-	-

⁹ Mr. Rohrbaugh retired as a member of Fulton’s senior management effective March 30, 2018.

¹⁰ Mr. McCollom was hired November 20, 2018. He became Fulton’s Chief Financial Officer effective March, 2, 2018 and became a Named Executive Officer of Fulton for the first time in 2017.

¹¹ Mr. Roda announced that he will be retiring as a member of Fulton’s senior management effective May 1, 2018.

¹² Ms. Chivinski became a Named Executive Officer of Fulton for the first time in 2017. Pursuant to SEC rules, Ms. Chivinski’s compensation for 2016 and 2015 is not included.

GRANTS OF PLAN-BASED AWARDS TABLE

Name	Grant Date	Approval Date ¹	Estimated Future or Possible Payouts Under Non-Equity Incentive Plan Awards ²			Estimated Future or Possible Payouts Under Equity Incentive Plan Awards ³			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards (\$/Sh)	Closing Price on Grant Date (\$/Sh)	Grant Date Fair Value of Stock and Option Awards ⁴ (\$)
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)					
E. Philip Wenger	5/1/2017	3/20/2017	-	-	-	16,276	65,102	89,515	-	-	-	18.70	1,217,407
E. Philip Wenger	-	3/20/2017	210,941	843,765	1,265,648	-	-	-	-	-	-	-	-
Philmer H. Rohrbaugh	5/1/2017	3/20/2017	-	-	-	7,795	23,387	31,183	-	-	-	18.70	437,337
Philmer H. Rohrbaugh	-	3/20/2017	66,040	264,158	396,237	-	-	-	-	-	-	-	-
Mark R. McCollom	11/27/2017	10/20/2017	-	-	-	-	-	-	13,888	-	-	18.00	249,984
Craig A. Roda	5/1/2017	3/20/2017	-	-	-	4,124	16,500	22,688	-	-	-	18.70	308,550
Craig A. Roda	-	3/20/2017	52,415	209,659	314,489	-	-	-	-	-	-	-	-
Curtis J. Myers	5/1/2017	3/20/2017	-	-	-	3,934	15,738	21,610	-	-	-	18.70	294,301
Curtis J. Myers	-	3/20/2017	52,185	208,740	313,110	-	-	-	-	-	-	-	-
Beth Ann L. Chivinski	5/1/2017	3/20/2017	-	-	-	4,804	15,208	20,410	-	-	-	18.70	284,390
Beth Ann L. Chivinski	-	3/20/2017	44,063	176,254	264,380	-	-	-	-	-	-	-	-

¹ The grants of Performance Shares were approved at the March 2017 HR Committee and Board of Directors meetings, pursuant to the 2013 Plan, with a grant date of May 1, 2017. Based on the recommendation of the HR Committee, the Independent Directors of the Board also approved the non-equity incentive plan award under the 2013 Plan on March 21, 2017.

² The Executives were eligible to receive a VCP Award for 2017 pursuant to the 2013 Plan that is discussed beginning on Page 35.

³ The amounts in this column represent the number of Performance Shares granted to the Executives on May 1, 2017 based on the closing price of \$18.70 for Fulton's common stock on that date. The Performance Shares were allocated among three components, Component A, Component B and Component C for each of the Executives, as set forth in the table on Page 39. Performance Shares may become earned and vested based on the actual performance level achieved, over various performance periods with respect to the following performance measures: (i) Component A Performance Shares may be earned and vested based on the actual performance level achieved with respect to ROA relative to the 2017 Peer Group for the period of January 1, 2017 through December 31, 2017 and subject to satisfaction of the Profit Trigger; (ii) Component B Performance Shares may be become earned and vested based on the actual performance level achieved with respect to the relative TSR for the period of May 1, 2017 through March 31, 2020; and (iii) Component C Performance Shares may be earned and vested if the Profit Trigger is achieved. With respect to Component A Performance Shares and Component B Performance Shares, the actual number of Performance Shares earned and vested will be based on the actual performance level and will be interpolated on a straight-line basis for pro-rata achievement of the performance goals, if applicable, rounded down to the nearest whole number. Performance Shares also accrue dividend equivalents, which will be added to the award upon vesting on May 1, 2020.

⁴ See Note 4 to the Summary Compensation Table on Page 45 for additional information regarding the grant date fair value of the Performance Shares.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END TABLE

Name	Option Awards ¹					Stock Awards				
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	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 (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) ²	
E. Philip Wenger	-	-	-	-	-	-	-	84,562 ³	1,513,662	
E. Philip Wenger	-	-	-	-	-	-	-	84,331 ⁴	1,509,532	
E. Philip Wenger	-	-	-	-	-	-	-	65,969 ⁵	1,180,847	
Philmer H. Rohrbaugh	-	-	-	-	-	-	-	25,717 ³	460,337	
Philmer H. Rohrbaugh	-	-	-	-	-	-	-	26,268 ⁴	470,206	
Philmer H. Rohrbaugh	-	-	-	-	-	-	-	23,698 ⁵	424,203	
Mark R. McCollom	-	-	-	-	-	13,911	249,007	-	-	
Craig A. Roda	-	-	-	-	-	-	-	21,431 ³	383,619	
Craig A. Roda	-	-	-	-	-	-	-	19,429 ⁴	347,784	
Craig A. Roda	-	-	-	-	-	-	-	16,720 ⁵	299,284	
Curtis J. Myers	5,158	0	0	5.270	6/30/2019	-	-	-	-	
Curtis J. Myers	7,500	0	0	9.475	6/30/2020	-	-	-	-	
Curtis J. Myers	12,375	0	0	10.880	6/30/2021	-	-	-	-	
Curtis J. Myers	11,263	0	0	10.475	3/31/2022	-	-	-	-	
Curtis J. Myers	10,877	0	0	11.580	3/31/2023	-	-	-	-	
Curtis J. Myers	-	-	-	-	-	-	-	19,955 ³	357,202	
Curtis J. Myers	-	-	-	-	-	-	-	18,093 ⁴	323,861	
Curtis J. Myers	-	-	-	-	-	-	-	15,948 ⁵	285,462	
Beth Ann L. Chivinski	-	-	-	-	-	-	-	8,358 ³	149,603	
Beth Ann L. Chivinski	-	-	-	-	-	-	-	6,963 ⁴	124,637	
Beth Ann L. Chivinski	-	-	-	-	-	-	-	15,411 ⁵	275,849	

¹ The number of securities underlying the options and the option exercise price has been adjusted for stock dividends and stock splits, if any, which have occurred since the option grant date.

² Market value of Performance Shares shown is based on the closing price of Fulton common stock of \$17.90 on December 29, 2017, the last trading day of 2017.

The Performance Shares are allocated among three components, Component A, Component B and Component C, for each of the Executives. Performance Shares allocated to Component A are presented based on actual ROA performance during the first year of the performance period; Performance Shares allocated to Component B are presented assuming the maximum level of performance for 2015, and the target level of performance for 2016 and 2017, based on relative TSR performance through December 31, 2017; and Performance Shares allocated to Component C are presented using the actual number of shares granted, since the number of shares that may vest upon completion of the performance period will not change. All such Performance Shares are subject to the achievement of the applicable performance criteria for the designated performance period, and continued service with Fulton on the vesting date. The actual earning and vesting of these Performance Shares could vary materially from the amounts in the table at the end of the performance period. Dividend equivalents accrued during the performance period, which may be earned and vest on the Performance Shares, are included in the number of Performance Shares.

³ Performance Shares granted on April 1, 2015. If the performance criteria is achieved and other requirements under the 2013 Plan are satisfied, these Performance Shares will vest on April 1, 2018.

⁴ Performance Shares granted on May 1, 2016. If the performance criteria are achieved and other requirements under the 2013 Plan are satisfied, these Performance Shares will vest on May 1, 2019.

⁵ Performance Shares granted on May 1, 2017. If the performance criteria are achieved and other requirements under the 2013 Plan are satisfied, these Performance Shares will vest on May 1, 2017.

OPTION EXERCISES AND STOCK VESTED TABLE ¹

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ² (\$)
E. Philip Wenger	0	0	111,777	1,995,214
Philmer H. Rohrbaugh	0	0	33,993	606,768
Mark R. McCollom	0	0	0	0
Craig A. Roda	0	0	28,329	505,675
Curtis J. Myers	9,285	69,460	26,378	470,840
Beth Ann L. Chivinski	0	0	9,352	166,938

¹ Except for Mr. McCollom, all of the Executives had Performance Shares that vested during 2016.

² Shares that vested on April 1, 2017 for Messrs. Wenger, Rohrbaugh, Roda and Myers and Ms. Chivinski were valued at \$17.85 per share, the closing price of Fulton's common stock on March 31, 2017, the preceding trading day because April 1, 2017 was not a trading day.

PENSION BENEFITS TABLE ³

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
E. Philip Wenger	NA	-	-	-
Philmer H. Rohrbaugh	NA	-	-	-
Mark R. McCollom	NA	-	-	-
Craig A. Roda	NA	-	-	-
Curtis J. Myers	NA	-	-	-
Beth Ann L. Chivinski	NA	-	-	-

³ During 2017, none of the Executives participated in or had an account balance in any qualified or nonqualified defined benefit plans sponsored by Fulton or any Fulton subsidiary bank.

NONQUALIFIED DEFERRED COMPENSATION TABLE

Name	Executive Contributions in Last FY (\$)	Registrant Contributions in Last FY ¹ (\$)	Aggregate Earnings in Last FY ² (\$)	Aggregate Withdrawals/ Distributions (\$)	Aggregate Balance at Last FYE ³ (\$)
E. Philip Wenger	146,803	71,139	250,077	0	1,437,326
Philmer H. Rohrbaugh	0	0	0	0	0
Mark R. McCollom	0	0	0	0	0
Craig A. Roda	19,094	13,785	31,390	0	380,815
Curtis J. Myers	32,692	16,592	39,650	0	300,824
Beth Ann L. Chivinski	10,569	11,753	449	0	77,297

¹ Fulton's contributions toward nonqualified deferred compensation for each of the Executives are listed in this column. The Executives' contributions are matched at the same 100% of the first 5% of compensation deferred as provided in the 401(k) Plan. However, while the Executives were permitted to contribute up to 100% of their eligible salary and cash bonus during 2017, these matching contributions are made based on an Executive's eligible salary and bonus that exceeds the federal limit of \$270,000 for 2017. See the table contained in footnote 8 of the "Summary Compensation Table" on Page 45. Amounts listed as Registrant Contributions in this Nonqualified Deferred Compensation Table are also included as part of the Executives' "Total All Other Compensation" in the Summary Compensation Table. 2017 contributions were credited to each of the Executive's accounts in early 2018.

² The Executives direct the investment of their Nonqualified Deferred Compensation contributions into various standard investment options offered from a set menu of investment funds. In 2016, the available investment funds included Federated Total Return Bond Fund (FTRBX), Fidelity Advisory Diversified International Fund (FDVIX), FMI International (FMIJX), Goldman Sachs Core Fixed Income Fund (GSFIX), Janus Enterprises (JAENX), Vanguard Mid Cap Value Index Fund (VMVAX), Goldman Sachs Financial Square Government Fund (FGTXX), MFS Value Fund+ (MEIIX), Vanguard Inflation Protected Securities Fund (VAIPX) 8/10/16, T. Rowe Price Growth Stock Fund (PRGFX), T. Rowe Price Retirement 2010 (TRRAX), T. Rowe Price Retirement 2020 (TRRBX), T. Rowe Price Retirement 2030 (TRRCX), T. Rowe Price Retirement 2040 (TRRDY), T. Rowe Price Retirement 2050 (TRRMX), T. Rowe Price Retirement 2060 (TRRLX), Vanguard 500 Index Fund (VFIAX), Vanguard Mid-Cap Index Fund (VIMAX), Vanguard Short-Term Bond Index Fund (VBIRX), Vanguard Small-Cap Growth Index Fund (VSGAX), Vanguard Small-Cap Index Fund (VSMAX), Vanguard Small-Cap Value Index Fund (VSIAX), Vanguard STAR Fund (VGSTX) and Vanguard Windsor Fund (VWNAX). The Executives may change their individual elections by completing a new election form. Accumulated balances in the Deferred Compensation Plan become payable upon the later of a participant attaining age 62, or the participant's separation of service from Fulton. Participants in the Deferred Compensation Plan, including the Executives, may elect to receive benefits either in a single, lump sum payment, or in equal monthly or annual installments over a period of not more than twenty (20) years. Participants are permitted to request withdrawals from contributions credited prior to January 1, 2005 and earnings thereon, to defray certain medical expenses or prevent eviction or foreclosure from the participant's principal residence, and from contributions credited on or after January 1, 2005 and earnings thereon, to alleviate a severe financial hardship due to injury or illness of the participant or the participant's spouse or dependents, a casualty loss to the participant's property, imminent foreclosure or eviction from the participant's primary residence or unpaid funeral expenses for the participant's spouse or dependents. A discussion of the Deferred Compensation Plan is included on Page 40.

³ Balances include the 2017 contributions made by Fulton and credited to the Executives' accounts in early 2018. The aggregate amounts shown in this column include the following amounts that were reported as compensation to the Executives in the Summary Compensation Tables in Fulton's previous proxy statements:

- For Mr. Wenger, a total of \$809,438 was reported (2007 to 2017);
- For Mr. Roda, a total of \$186,691 was reported (2012 to 2017); and
- For Mr. Myers, a total of \$25,876 was reported (2016 to 2017).
- For Ms. Chivinski, a total of \$11,753 was reported (2017).

**POTENTIAL PAYMENTS UPON TERMINATION AND GOLDEN PARACHUTE
COMPENSATION TABLE**

Potential Payments as of December 31, 2017 ¹						
Executive	Voluntary Termination ² or Termination for Cause ³	Termination Without Cause or for Good Reason – Before a Change in Control ^{4,5}	Termination Without Cause or for Good Reason – Upon or After a Change in Control ^{6,7,8}	Termination Due to Retirement ⁹	Termination Due to Disability ^{10,11}	Termination Due to Death ^{12,13}
E. Philip Wenger						
Cash (\$)	0	998,284	3,781,412	0	1,098,112	1,996,568
Equity (\$)	0	0	3,977,398	0	3,977,398	3,977,398
Pension/NQDC(\$)	0	0	189,071	0	0	0
Perquisites/Benefits(\$)	0	12,000	74,000	0	18,000	0
Tax Reimbursement(\$)	0	0	1,114,642	0	0	1,260,125
TOTAL (\$)	0	1,010,284	9,136,523	0	5,093,510	7,234,091
Philmer H. Rohrbaugh						
Cash (\$)	0	531,306	1,605,491	0	584,437	1,062,612
Equity (\$)	0	0	1,285,811	0	1,285,811	1,285,811
Pension/NQDC(\$)	0	0	81,070	0	0	0
Perquisites/Benefits(\$)	0	12,000	74,000	0	18,000	0
Tax Reimbursement(\$)	0	0	0	0	0	670,663
TOTAL (\$)	0	543,306	3,046,372	0	1,888,248	3,019,086
Mark R. McCollom						
Cash (\$)	0	550,000	0	0	467,500	850,000
Equity (\$)	0	0	249,007	249,007	249,007	249,007
Pension/NQDC(\$)	0	0	0	0	0	0
Perquisites/Benefits(\$)	0	12,000	34,000	0	18,000	0
Tax Reimbursement(\$)	0	0	0	0	0	536,474
TOTAL (\$)	0	562,000	283,007	249,007	734,507	1,635,481
Craig A. Roda						
Cash (\$)	0	421,691	1,297,044	0	463,860	843,382
Equity (\$)	0	0	973,241	0	973,241	973,241
Pension/NQDC(\$)	0	0	64,852	0	0	0
Perquisites/Benefits(\$)	0	12,000	74,000	0	18,000	0
Tax Reimbursement(\$)	0	0	0	0	0	532,297
TOTAL (\$)	0	433,691	2,409,137	0	1,455,101	2,348,920
Curtis J. Myers						
Cash (\$)	0	650,832	990,319	0	467,496	849,992
Equity (\$)	367,576	367,576	1,280,619	367,576	1,280,619	1,280,619
Pension/NQDC(\$)	0	0	65,083	0	0	0
Perquisites/Benefits(\$)	0	12,000	34,000	0	18,000	0
Tax Reimbursement(\$)	0	0	0	0	0	536,469
TOTAL (\$)	367,576	1,030,408	2,360,021	367,576	1,766,115	2,667,080
Beth Ann L. Chivinski						
Cash (\$)	0	552,319	964,843	0	389,953	709,006
Equity (\$)	0	0	543,104	0	543,104	543,104
Pension/NQDC(\$)	0	0	55,232	0	0	0
Perquisites/Benefits(\$)	0	12,000	34,000	0	18,000	0
Tax Reimbursement(\$)	0	0	0	0	0	447,486
TOTAL (\$)	0	564,319	1,597,179	0	951,057	1,699,596

¹ All amounts listed under Equity in this table are the value of the Executive's Performance Shares or time-based restricted stock units and vested and "in the money" stock options valued based on the closing price of Fulton's common stock of \$17.90 on December 29, 2017, the last trading day of 2017.

² **Voluntary Termination:** In the event an Executive's employment is voluntarily terminated by the Executive other than for "Good Reason," which is defined in the Employment Agreement and described in footnote 5 below, Fulton's obligations are limited to the payment of the Executive's base salary through the effective date of the Executive's termination, together with any applicable expense reimbursements and all accrued and unpaid benefits and vested benefits in accordance with the applicable employee benefit plans. No other payments are required, and under the 2013 Plan, unexercised stock options and Performance Shares are forfeited by the Executive as a result of voluntary termination. The amount listed under Equity is the value of the Executive's vested and "in the money" stock options.

³ **Termination for Cause:** If an Executive's employment is terminated for "Cause," Fulton is not obligated to make any further payments to the Executive under the Employment Agreement, other than amounts (including salary, expense reimbursement, etc.) accrued under the Employment Agreements as of the date of such termination. Under the 2013 Plan, unexercised stock options and Performance Shares are forfeited by an Executive terminated for Cause, which is generally defined in the Employment Agreement to include the commission of certain felonies or misdemeanors, use of alcohol or other drugs which interferes with the performance by the Executive of the Executive's duties, intentional refusal or failure by the Executive to perform duties, or conduct that brings public discredit on, or injures the reputation of, Fulton. The value listed under Equity is the value of the Executive's vested and "in the money" stock options.

⁴ **Termination Without Cause or for Good Reason – Before a Change in Control:** If an Executive terminates the Executive's employment for "Good Reason" or the Executive's employment is terminated by Fulton "Without Cause," the Executive is entitled to receive the Executive's base salary for a period of 1 year and a cash bonus for the fiscal year in which the termination date occurs at the target payout level, pro-rated to the date of termination, except that for Messrs. Wenger, Rohrbaugh and Roda, both the payment and the amount of the cash bonus shall be at the discretion of the HR Committee and as approved by Fulton's Board of Directors. The Executive also would continue to participate in employee health and other benefit plans for which the Executive is eligible during the 1 year period. If the Executive is not eligible to continue to participate in any employee benefit plan, the Executive will be compensated on an annual basis, in advance, for such plan in an amount equal to the cost Fulton would have incurred, had the Executive been eligible to participate in such plan, plus any permitted gross-up for any taxes applicable thereto. Under the 2013 Plan, unexercised stock options are forfeited by an Executive terminated Without Cause or for Good Reason. Good Reason is defined in the Employment Agreement to include a breach by Fulton of its material obligations without remedy, a significant change in the Executive's authority, duties, compensation or benefits, or a relocation of the Executive outside a specified distance from where the Executive previously was based. Without Cause is defined in the Employment Agreement to include any reason other than for Cause.

⁵ Cash amount listed for each Executive includes a severance payment based on the Executive's 2017 base salary. The amounts listed under Cash assume no discretionary bonus was paid to Messrs. Wenger, Rohrbaugh and Roda, but the payments to Messrs. McCollom and Myers and Ms. Chivinski assume the payment of their 2017 cash bonuses. Equity amounts listed are the value of unexercised stock options. Perquisites/Benefits include a monthly estimate of \$1,000 for the value of health and other benefit expenses paid by Fulton for the 1 year severance period attributed to each Executive.

⁶ **Termination Without Cause or for Good Reason – Upon or After a Change in Control:** The Executives and other employees have contributed to the building of Fulton into the successful enterprise it is today, and Fulton believes that it is important to protect them in the event of a "Change in Control." Further, Fulton believes that the interests of shareholders will be best served if the interests of the Executives are aligned with them, and providing Change in Control benefits should eliminate or mitigate any reluctance of the Executives to pursue potential Change in Control transactions that may be in the best interests of shareholders. The HR Committee has determined that the potential Change in Control benefits it offers the Executives are typical for the financial services industry and reasonable relative to the overall value of Fulton.

A Change in Control with respect to Messrs. Wenger, Rohrbaugh and Roda is defined in the Employment Agreements to include: the acquisition of the beneficial ownership of more than 50% of the total fair market value or voting power of the stock of Fulton by any one person or group of persons acting in concert; a change in the composition of the Board of Directors of Fulton during any period of 12 consecutive months such that a majority of the Board of Directors is replaced by directors whose appointment or election was not endorsed by a majority of the Board of Directors before such appointment or election; or the acquisition by any person or group of persons acting in concert during any 12 month period of 30% or more of the total voting power of the stock of Fulton, or of 40% or more of the total assets (on a gross fair market value basis) of Fulton.

With respect to Mr. McCollom, Mr. Myers and Ms. Chivinski, a Change in Control is defined in the Employment Agreements to occur when: during any period of not more than 36 months, the individuals that constituted Fulton's Board of Directors at the beginning of such period, with certain exceptions, cease to constitute at least a majority of Fulton's Board of Directors; beneficial ownership of more than 30% of the outstanding voting power of the stock of Fulton is acquired by any person, with certain exceptions; a merger or consolidation involving Fulton is consummated, unless at least 50% of the voting power of the resulting entity is represented by Fulton voting securities outstanding prior to such merger or consolidation, no person beneficially has the power to vote 30% or more of the voting power of the resulting entity, and at least a majority of the members of the board of directors of the resulting entity were members of Fulton's Board of Directors prior to the execution of the agreement which effectuated such merger or consolidation; the sale of all or substantially all of the assets of Fulton is consummated; or Fulton's shareholders approve a plan of liquidation or dissolution.

If, during the period beginning 90 days before a Change in Control and ending 2 years after such Change in Control, an Executive is terminated by Fulton Without Cause or an Executive resigns for Good Reason, Fulton would be required to pay the Executive 2 times the sum of the Executive's: (i) annual base salary immediately before the Change in Control; and (ii) the highest annual cash bonus or other incentive compensation awarded to the Executive over the prior 3 years. The Executive also would be entitled to receive: (i) an amount equal to that portion of Fulton's retirement plan, 401(k) plan or deferred compensation plan contributions for the Executive which were not vested, plus the amount of any federal, state or local income taxes due on such amount; (ii) an amount equivalent to 2 years of Fulton retirement plan contributions to each tax qualified or nonqualified retirement plan in which the Executive was a participant immediately prior to the Executive's termination or resignation; (iii) payment of up to \$10,000 for outplacement services; and (iv) continuation of other employee welfare benefits for a period of 2 years. With respect to Messrs. Wenger, Rohrbaugh and Roda, if the Executive would not be eligible to continue to participate in any employee welfare benefit plan, the Executive would be compensated on an annual basis, in advance, for such plan in an amount equal to the cost Fulton would have incurred, had the Executive been eligible to participate in such plan, plus any permitted gross-up for any taxes applicable thereto. In addition, Messrs. Wenger, Rohrbaugh and Roda would be entitled to receive continuation of other executive perquisites, such as club memberships and employer-provided automobiles, for a period of 2 years.

Only Mr. Wenger's Employment Agreement provides that, in the event any payment or distribution by Fulton to or for the benefit of an Executive would be subject to excise tax as a Golden Parachute, Mr. Wenger will be entitled to receive an additional payment equal to the total excise tax imposed. The determination that a "gross-up" payment is required and its amount is to be made by a tax adviser and Fulton is responsible for the adviser's fees and expenses. Fulton's Compensation Consultant advised the HR Committee in 2006 that this "gross-up provision" was a typical provision in such agreements. In keeping with Fulton's objective to offer a competitive contract when they were offered, this provision was included in the Employment Agreements in 2006, but more recent agreements, such as the agreements with Messrs. Rohrbaugh, McCollom, Roda and Myers and Ms. Chivinski, do not contain a "gross-up provision."

Generally, the 2013 Plan provides for vesting of unvested stock options and time-based restricted stock units upon termination during the 12-month period following a Change in Control. However, with respect to Performance Shares, in the event of a Change in Control, all incomplete performance periods with respect of such Performance Shares in effect on the date the Change in Control occurs shall end on the date of such change, and the HR Committee shall (i) determine the extent to which Performance Goals with respect to each such performance period have been met based upon such audited or unaudited financial information then available as it deems relevant and (ii) cause such portion or all of the Performance Shares to vest with respect to performance goals for each such performance period based upon the HR Committee's determination of the degree of attainment of performance goals or, if not determined by year end, the values assume the applicable "target" levels of performance have been attained.

⁷ Cash amounts listed are 2 times 2017 base salary and highest VCP Awards paid for the last 3 years for each Executive. Except for Mr. Wenger, the cash amounts have been reduced, pursuant to the terms of the Executive's Employment Agreement to the extent required to avoid a federal excise tax imposition pursuant to the regulations promulgated under Section 280G of the Tax Code. Equity amount is the value of all "in the money" stock options and unvested Performance Shares as of December 31, 2017. Perquisites/ Benefits include \$10,000 for outplacement services, \$1,000 per month during the severance period for the estimated value of health and other benefit expenses paid by Fulton, and, with respect to Messrs. Wenger, Rohrbaugh and Roda, \$20,000 per year for club memberships, vehicle and other expenses paid by Fulton, for the severance period attributed to each Executive.

⁸ Amount listed under Pension/NQDC represents the aggregate dollar value of Fulton’s contributions to the 401(k) Plan, Nonqualified Deferred Compensation Plan and other retirement benefits as a result of this termination event.

⁹ **Termination Due to Retirement:** In the event an Executive terminates his employment due to retirement, Fulton is obligated to pay the Executive’s base salary through the effective date of the Executive’s retirement, together with any applicable expense reimbursements and all accrued and unpaid benefits and vested benefits in accordance with the applicable employee benefit plans. In addition, pursuant to the 2013 Plan, in the event an Executive terminates employment due to retirement at the earlier of (i) achieving age 60 with at least 10 years of service to Fulton or any affiliate or (ii) achieving age 62 with at least 5 years of service to Fulton or any affiliate, unvested stock options and time-based restricted stock units awarded under Fulton’s plans would automatically vest. Pursuant to the 2013 Plan, the Performance Shares do not automatically vest upon retirement, and are not included, but subject to review by the HR Committee, performance continues to be measured and the shares may vest based on the original vesting schedule according to the performance level actually achieved. Assuming that all the Executives attained the earlier of (i) achieving age 60 with at least 10 years of service to Fulton or any affiliate or (ii) achieving age 62 with at least 5 years of service to Fulton or any affiliate and retired as of December 31, 2017. The Executives would have 1 or 2 years from the date of retirement to exercise their stock options in accordance with the terms of their option awards.

¹⁰ **Termination Due to Disability:** Following an Executive’s “Disability”, defined in the Employment Agreements to be a medically determinable physical or medical impairment that is expected to result in death or to last for at least 12 months, and that either renders the Executive unable to engage in any substantial gainful activity or qualifies the Executive for benefits under a Fulton disability plan, the employment of the Executive would terminate automatically, in which event Fulton is not thereafter obligated to make any further payments under the Employment Agreement, other than amounts (including salary, expense reimbursement, etc.) accrued as of the date of such termination, plus an amount equal to at least six months’ base salary as in effect immediately prior to the date of the Disability. After this six (6) month salary continuation period, for as long as the Executive continues to be disabled, the Executive will continue to receive at least 60% of the Executive’s base salary until the earlier of the Executive’s death or December 31 of the calendar year in which the Executive attains age 65. To the extent it does not duplicate benefits already being provided, an Executive will also receive those benefits customarily provided by Fulton to disabled former employees, which benefits shall include, but are not limited to, life, medical, health, accident insurance and a survivor’s income benefit.

¹¹ Cash amount for all the Executives is 6 months at full salary, then 60% of salary for an assumed period of 12 months. Perquisites/Benefits include a monthly estimate of \$1,000 for the value of health and other benefit expenses paid by Fulton for an assumed period of 18 months. Equity amount is the value of all “in the money” options and Performance Shares, which would vest as described in the last paragraph of Footnote 6 above. In the event an Executive terminates employment due to disability, unvested options, Performance Shares and time-based restricted stock units awarded under Fulton’s option plans would automatically vest. The Executives would have 1 year from the date of disability to exercise stock options.

¹² **Termination Due to Death:** In the event of a termination of employment as a result of an Executive’s death, the Executive’s dependents, beneficiaries or estate, as the case may be, would receive such survivor’s income and other benefits as they may be entitled to under the terms of Fulton’s benefit programs, which includes the Life Insurance benefit of twice base salary amount plus a tax reimbursement due as a result of the payment under the Death Benefits described on Page 40.

¹³ In the event an Executive terminates employment due to death, unvested options, Performance Shares and time-based restricted stock units awarded under Fulton’s option plans would automatically vest. The estate of the Executive would have 1 year from the date of death to exercise stock options.

CEO PAY RATIO DISCLOSURE

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K, Fulton is providing the following information about the ratio of the annual total compensation paid to our “median employee,” and the annual total compensation of Mr. Wenger (our “CEO”), for the year ended December 31, 2017.

Pay Ratio Summary
• For 2017, the annual total compensation of our selected median employee was \$47,397.
• The 2017 annual total compensation of our CEO, as reported in the Summary Compensation Table on Page 45, was \$3,174,978.
• Based on this information, for 2017 we reasonably estimate that the ratio of the annual total compensation of our CEO to our median employee was 67 to 1.
• Our pay ratio estimate has been calculated in a manner consistent with Item 402(u) of Regulation S-K using the data and assumptions summarized below.

As of December 31, 2017, to identify the median employee from our employee population, we compared the amount of salary, wages, cash bonus, stock awards, employer contributions to our 401(k) Plan and all other compensation items paid to our employee population for 2017. We identified our median employee using this consistently applied compensation measure that excluded our CEO. In making this determination, we annualized the compensation of our permanent full-time and part-time employees who were hired in 2017 and did not work for Fulton for the entire fiscal year, but were still employed as of December 31, 2017.

Once we identified our median employee, we combined all of the elements of such employee’s compensation for 2017 consistent with the requirements of Item 402(c)(2)(x) of Regulation S-K. With respect to the annual total compensation of our CEO, we used the same process and amount reported in the “Total” column of our 2017 Summary Compensation Table included in this Proxy Statement on Page 45.

The SEC rules for identifying the median employee and calculating the pay ratio based on that employee’s annual total compensation allow companies to adopt a variety of methodologies, to apply certain exclusions, and to make reasonable estimates and assumptions that reflect their compensation practices. As such, the pay ratio reported by other companies may not be comparable to the pay ratio reported above, as other companies may have different employment and compensation practices and may utilize different methodologies, exclusions, estimates, and assumptions in calculating their own pay ratios.

**NON-BINDING SAY-ON-PAY RESOLUTION TO APPROVE THE COMPENSATION
OF THE NAMED EXECUTIVE OFFICERS – PROPOSAL TWO**

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the “Dodd-Frank Act,” Fulton is providing its shareholders with the opportunity to vote on an advisory (non-binding) resolution at the 2018 Annual Meeting to approve the compensation of Fulton’s named executive officers for 2017 as described in the Compensation Discussion and Analysis, the tabular disclosures of the Named Executive Officers’ compensation (“Compensation Tables”) in this Proxy Statement. This proposal, commonly known as a “Say-on-Pay” Proposal, gives shareholders the opportunity to endorse or not endorse Fulton’s Executive pay program. At Fulton’s 2017 Annual Meeting, Fulton presented a similar proposal to its shareholders, and approximately 97% of the shareholders who cast a vote on this proposal voted in favor of, and approved, Fulton’s Say-on-Pay proposal. The HR Committee considered the number of votes cast in favor of Fulton’s prior Say-on-Pay proposal to be a positive endorsement of Fulton’s current pay programs and practices. Fulton will continue to monitor the level of support for each Say-on-Pay proposal. However, because the shareholder vote is not binding, the outcome of the this year’s vote, or any future vote, may not be construed as overruling any decision by Fulton’s Board of Directors or HR Committee regarding executive compensation.

In 2017, Fulton submitted to shareholders a non-binding proposal, asking shareholders whether Fulton should submit its Say-on-Pay proposal to shareholders every one (1), two (2) or three (3) years. This type of proposal is commonly known as a “Say-When-on-Pay” proposal, and under current SEC rules, required, no less frequently than once every six (6) years. The shareholders approved Fulton’s recommendation that the Say-on-Pay proposal should be submitted to shareholders on an annual basis. Although Fulton believes that having an annual Say-on-Pay vote is appropriate, Fulton’s HR Committee and Board of Directors will continue to evaluate the frequency of the non-binding Say-on-Pay proposal and might recommend that shareholders approve a different frequency in the future.

As further described in the “Compensation Discussion and Analysis” section of this Proxy Statement, starting on Page 26, Fulton’s executive compensation philosophy and program are intended to achieve three (3) objectives: (i) align interests of the Executives with shareholder interests; (ii) link the Executives’ pay to performance; and (iii) attract, motivate and retain executive talent. Fulton’s Executive compensation program currently includes a mix of base salary, incentive bonus, equity-based plans, retirement plans, health plans and other benefits. Fulton believes that its compensation program, policies and procedures are reasonable and appropriate and compare favorably with the compensation programs, policies and procedures of its peers.

The Board of Directors recommends that shareholders, in a non-binding proposal, vote “FOR” the following resolution:

“RESOLVED, that the compensation paid to Fulton’s Named Executive Officers for 2017, as disclosed in this Proxy Statement pursuant to Item 402 of SEC Regulation S-K, including the Compensation Discussion and Analysis and the Compensation Tables contained in this Proxy Statement, is hereby APPROVED.”

Approval of the non-binding resolution regarding the compensation of the Named Executive Officers would require that the number of votes cast in favor of the proposal exceed the number of votes cast against it. Abstentions and broker non-votes will not be counted as votes cast and, therefore, will not affect the determination as to whether the proposal is approved.

Because your vote is advisory, it will not be binding upon Fulton. However, Fulton’s HR Committee and Board of Directors will take into account the outcome of the vote when considering future Executive compensation arrangements, but no determination has been made as to what action, if any, the HR Committee or Board of Directors might take if shareholders do not approve this advisory proposal.

Recommendation of the Board of Directors

The Board of Directors recommends that the shareholders vote FOR the non-binding resolution to approve the compensation of the Named Executive Officers for 2017.

RELATIONSHIP WITH INDEPENDENT PUBLIC ACCOUNTANTS

For the years ended December 31, 2017 and December 31, 2016, Fulton engaged KPMG LLP (“KPMG”), independent registered public accountants, to audit Fulton’s financial statements. The fees incurred for services rendered by KPMG for the years ended December 31, 2017 and 2016 are summarized in the following table:

Services and Fees	2017	2016
Audit Fees – Annual Audit and Quarterly Reviews ¹	\$ 1,986,000	\$1,700,000
Audit Fees – Issuance of Comfort Letters and Consents	344,000	–
Audit Fees – Statutory Audit	53,000	53,000
Audit Fees Subtotal	2,383,000	1,753,000
Audit Related Fees ²	126,000	115,000
Tax Fees ³	66,000	62,000
All Other Fees	–	–
TOTAL	\$ 2,575,000	\$1,930,000

¹ Amounts presented for 2017 are based upon the audit engagement letter and additional fees paid. Final billings for 2017 may differ.

² Fees paid for a required agreed-upon procedures report related to student lending and audits of financial statements of certain employee benefits plans.

³ Fees paid for tax services relating to federal and state tax matters.

The appointment of KPMG for the fiscal year ended December 31, 2018 was approved by the Audit Committee of the Board of Directors of Fulton at a meeting on February 22, 2018. Representatives of KPMG are expected to be present at the 2018 Annual Meeting with the opportunity to make a statement and will be available to respond to appropriate questions.

The Audit Committee has carefully considered whether the provision of the non-audit services described above, which were performed by KPMG in 2017 and 2016, would be incompatible with maintaining the independence of KPMG in performing its audit services and has determined that, in its judgment, the independence of KPMG has not been compromised.

All fees paid to KPMG in 2017 and 2016 were pre-approved by the Audit Committee. The Audit Committee pre-approves all auditing and permitted non-auditing services, including the fees and terms thereof, to be performed by its independent auditor, subject to the de minimus exceptions for non-auditing services permitted by the Exchange Act. However, these types of services are approved prior to completion of the services. The Audit Committee may form and delegate authority to subcommittees consisting of one or more members, when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services. Any decisions of such subcommittees to grant pre-approvals are presented to the full Audit Committee for ratification at its next scheduled meeting.

Based on its review and discussion of the audited 2017 financial statements of Fulton with management and KPMG, the Audit Committee recommended to the Board of Directors that the financial statements be included in the Annual Report on Form 10-K for filing with the SEC. A copy of the report of the Audit Committee of its findings that resulted from its financial reporting oversight responsibilities is attached as Exhibit A.

RATIFICATION OF INDEPENDENT AUDITOR – PROPOSAL THREE

Fulton’s Audit Committee has selected the firm of KPMG to continue as Fulton’s independent auditor for the fiscal year ending December 31, 2018. Although shareholder approval of the selection of KPMG is not required by law, the Board of Directors believes that it is advisable to give shareholders an opportunity to ratify this selection as is a common practice among other publicly traded companies and consistent with sound corporate governance practices. Assuming the presence of a quorum at the Annual Meeting, the affirmative vote of the majority of the votes cast is required to ratify the appointment of KPMG as Fulton’s independent auditor for the fiscal year ending December 31, 2018. If Fulton’s shareholders do not approve this proposal at the 2018 Annual Meeting, the Audit Committee will consider the results of the shareholder vote on this proposal when selecting an independent auditor for 2019. However, no determination has been made as to what other specific action, if any, the Audit Committee would take if shareholders do not ratify the appointment of KPMG at the 2018 Annual Meeting.

KPMG has conducted the audit of the financial statements of Fulton and its subsidiaries for the years ended December 31, 2002 through December 31, 2017. Representatives of KPMG who are expected to be present at the meeting, will be given an opportunity to make a statement if they desire to do so, and will be available to answer appropriate questions from shareholders.

Recommendation of the Board of Directors

The Board of Directors recommends that shareholders vote FOR ratification of the appointment of KPMG LLP as Fulton’s independent auditor for the fiscal year ending December 31, 2018.

ADDITIONAL INFORMATION

Annual Report on Form 10-K

A copy of Fulton's Annual Report on Form 10-K for the year-ended December 31, 2017, as filed with the SEC, including financial statements, is available without charge to shareholders upon written request addressed to the Corporate Secretary, Fulton Financial Corporation, P.O. Box 4887, One Penn Square, Lancaster, Pennsylvania 17604.

The Fulton Annual Report on Form 10-K for year-ended December 31, 2017 and this Proxy Statement are posted and available on Fulton's website at www.fult.com. Copies of the current governance documents and future updates, including but not limited to the Fulton Code of Conduct, Audit Committee Charter, HR Committee Charter, Nominating and Corporate Governance Committee Charter, Risk Committee Charter and Fulton's Governance Guidelines, are also posted and available on Fulton's website at www.fult.com. The contents of our website are not incorporated into this Proxy Statement by provision of this link, or other links in this Proxy Statement.

Householding of Proxy Materials

Only one (1) Proxy Statement is being delivered to multiple security holders sharing an address unless Fulton has received contrary instructions from one or more of the security holders. Fulton will promptly deliver, upon written or oral request, a separate copy of this Proxy Statement to a security holder at a shared address to which a single copy of the document was delivered. Such a request should be made to the Corporate Secretary, Fulton Financial Corporation, P.O. Box 4887, One Penn Square, Lancaster, Pennsylvania 17604, (717) 291-2411. Requests to receive a separate mailing for future Proxy Statements or to limit multiple copies to the same address should be made orally or in writing to the Corporate Secretary at the foregoing address or phone number.

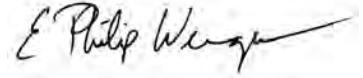
Sign Up for Electronic Delivery

If you would like to save paper and reduce the costs incurred by Fulton in printing and mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please go to www.proxyvote.com and have your proxy card and control number in hand when you access the website, then follow the instructions at www.proxyvote.com to obtain your records and to create an electronic voting instruction form. Follow the instructions for voting by Internet and, when prompted, indicate that you agree to receive or access shareholder communications electronically in future years.

OTHER MATTERS

The Board of Directors of Fulton knows of no matters other than those discussed in this Proxy Statement, which will be presented at the 2018 Annual Meeting. However, if any other matters are properly brought before the meeting, any proxy given pursuant to this solicitation will be voted in accordance with the recommendations of the Board of Directors of Fulton.

BY ORDER OF THE BOARD OF DIRECTORS



E. PHILIP WENGER
Chairman of the Board and
Chief Executive Officer

Lancaster, Pennsylvania
April 3, 2018

EXHIBIT A

REPORT OF AUDIT COMMITTEE

February 22, 2018

To the Board of Directors of Fulton Financial Corporation:

We have reviewed and discussed with management Fulton Financial Corporation's audited financial statements as of, and for the year ended, December 31, 2017.

We have discussed with representatives of KPMG LLP, Fulton Financial Corporation's independent auditor, the matters required to be discussed by Auditing Standard No. 1301, *Communications with Audit Committees* issued by the Public Company Accounting Oversight Board ("PCAOB").

We have received and reviewed the written disclosures and the letter from the independent auditor required by the PCAOB Ethics and Independence Rule 3526, *Communication with Audit Committees Concerning Independence*, as amended, by the PCAOB, and have discussed with the auditor the auditor's independence.

Based on the reviews and discussions referred to above, we recommend to the Board of Directors that the financial statements referred to above be included in Fulton Financial Corporation's Annual Report on Form 10-K for the year ended December 31, 2017.

Ronald H. Spair, Chair
Albert Morrison III, Vice Chair
Denise L. Devine
George W. Hodges
Ernest J. Waters

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017,

or

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

Commission File Number: 0-10587

FULTON FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of
incorporation or organization)

23-2195389
(I.R.S. Employer
Identification No.)

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

17604
(Zip Code)

(717) 291-2411

(Registrant's telephone number, including area code)

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

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

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

None

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

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

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Large accelerated filer	<input checked="" type="checkbox"/> Accelerated filer	<input type="checkbox"/> Emerging growth company	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> Smaller reporting company	<input type="checkbox"/>	

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

The aggregate market value of the voting Common Stock held by non-affiliates of the registrant, based on the average bid and asked prices on June 30, 2017, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$3.2 billion. The number of shares of the registrant's Common Stock outstanding on February 15, 2018 was 175,289,000.

Portions of the Definitive Proxy Statement of the Registrant for the Annual Meeting of Shareholders to be held on May 21, 2018 are incorporated by reference in Part III.

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PART I

Item 1. Business

General

Fulton Financial Corporation (the "Corporation") was incorporated under the laws of Pennsylvania on February 8, 1982 and became a bank holding company through the acquisition of all of the outstanding stock of Fulton Bank N.A. ("Fulton Bank") on June 30, 1982. In 2000, the Corporation became a financial holding company as defined in the Gramm-Leach-Bliley Act ("GLB Act"), which gave the Corporation the ability to expand its financial services activities under its holding company structure. See "Competition" and "Supervision and Regulation." The Corporation directly owns 100% of the common stock of six community banks and eight non-bank entities. As of December 31, 2017, the Corporation had approximately 3,700 full-time equivalent employees.

The common stock of the Corporation is listed for quotation on the Global Select Market of The NASDAQ Stock Market under the symbol FULT. The Corporation's Internet address is www.fult.com. Electronic copies of the Corporation's 2017 Annual Report on Form 10-K are available free of charge by visiting "Investor Relations" at www.fult.com. Electronic copies of quarterly reports on Form 10-Q and current reports on Form 8-K are also available at this Internet address. These reports, as well as any amendments thereto, are posted on the Corporation's website as soon as reasonably practicable after they are electronically filed with the Securities and Exchange Commission ("SEC").

Bank and Financial Services Subsidiaries

The Corporation's six subsidiary banks are located primarily in suburban or semi-rural geographic markets throughout a five-state region (Pennsylvania, Delaware, Maryland, New Jersey and Virginia). Each of these banking subsidiaries delivers financial services in a highly personalized, community-oriented style that emphasizes relationship banking. Where appropriate, operations are centralized through common platforms and back-office functions. The Corporation has announced that it is developing plans to seek regulatory approval to begin the process of consolidating its six subsidiary banks in connection with a transition to a business model that will be less oriented on geographic boundaries and will instead focus more on alignment with the customer segments the Corporation serves. The Corporation also believes that consolidating its subsidiary banks will enhance its ability to manage risk more efficiently and effectively through a centralized risk management and compliance function. This multi-year process is expected to eventually result in the Corporation conducting its core banking business through a single subsidiary bank. The timing of the commencement of this process will depend significantly on the Corporation and its banking subsidiaries making necessary progress in enhancing a largely centralized compliance program designed to comply with the requirements of the Bank Secrecy Act ("BSA"), as amended by the USA Patriot Act of 2001, as well as related anti-money laundering ("AML") laws and regulations. See Item 1A. "Risk Factors - Legal, Compliance and Reputational Risks - The Corporation intends to seek regulatory approval of the consolidation of our bank subsidiaries, which could result in significant implementation costs and impact our long-term compliance obligations" and "Risk Factors - Legal, Compliance and Reputational Risks - The Corporation and three of its bank subsidiaries are subject to regulatory enforcement orders requiring improvement in compliance functions and remedial actions."

The Corporation's subsidiary banks are located in areas that are home to a wide range of manufacturing, distribution, health care and other service companies. The Corporation and its banks are not dependent upon one or a few customers or any one industry, and the loss of any single customer or a few customers would not have a material adverse impact on any of the subsidiary banks. However, a large portion of the Corporation's loan portfolio is comprised of commercial loans, commercial mortgage loans and construction loans. See Item 1A. "Risk Factors - Economic and Credit Risks - Economic downturns and the composition of the Corporation's loan portfolio subject the Corporation to credit risk."

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

Commercial banking services are provided to small and medium sized businesses (generally with sales of less than \$150 million) in the subsidiary banks' market areas. The Corporation's policies limit the maximum total lending commitment to a single borrower to \$50.0 million as of December 31, 2017, which is below the Corporation's regulatory lending limit. In addition, the Corporation

has established lower total lending limits based on the Corporation's internal risk rating of the borrower and for certain types of lending commitments. Commercial lending products include commercial, financial, agricultural and real estate loans. Variable, adjustable and fixed rate loans are provided, with variable and adjustable rate loans generally tied to an index, such as the Prime Rate or the London Interbank Offered Rate ("LIBOR"), as well as interest rate swaps. The commercial lending policy of the Corporation's subsidiary banks encourages relationship banking and provides strict guidelines related to customer creditworthiness and collateral requirements for secured loans. In addition, equipment leasing, letters of credit, cash management services and traditional deposit products are offered to commercial customers.

Investment management, trust, brokerage, insurance and investment advisory services are offered to consumer and commercial banking customers in the market areas serviced by the Corporation's subsidiary banks by Fulton Financial Advisors (a division of the Corporation's largest subsidiary, Fulton Bank).

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

The following table provides certain information for the Corporation's banking subsidiaries as of December 31, 2017:

Subsidiary	Main Office Location	Total Assets	Total Deposits	Branches ⁽¹⁾
(dollars in millions)				
Fulton Bank, N.A.	Lancaster, PA	\$ 11,494	\$ 8,649	112
Fulton Bank of New Jersey	Mt. Laurel, NJ	4,069	3,480	64
The Columbia Bank	Columbia, MD	2,411	1,910	31
Lafayette Ambassador Bank	Bethlehem, PA	1,577	1,340	21
FNB Bank, N.A.	Danville, PA	354	291	6
Swineford National Bank	Middleburg, PA	328	286	7
				241

(1) Remote service facilities (mainly stand-alone automated teller machines) are excluded. See additional information in Item 2. "Properties."

Non-Bank Subsidiaries

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

The Corporation also owns 100% of the common stock of three non-bank subsidiaries which are not consolidated for financial reporting purposes. The following table provides information for these non-bank subsidiaries, whose sole assets consist of junior subordinated deferrable interest debentures issued by the Corporation, as of December 31, 2017:

Subsidiary	State of Incorporation	Total Assets (in thousands)
Columbia Bancorp Statutory Trust.....	Delaware	\$ 6,186
Columbia Bancorp Statutory Trust II.....	Delaware	4,124
Columbia Bancorp Statutory Trust III.....	Delaware	6,186

Competition

The banking and financial services industries are highly competitive. Within its geographic region, the Corporation's subsidiaries face direct competition from other commercial banks, varying in size from local community banks to larger regional and national

banks, credit unions and non-bank entities. As a result of the wide availability of electronic delivery channels, the subsidiary banks also face competition from financial institutions that do not have a physical presence in the Corporation's geographic markets. The industry is also highly competitive due to the various types of entities that now compete aggressively for customers that were traditionally served only by the banking industry. Under the current financial services regulatory framework, banks, insurance companies and securities firms may affiliate under a financial holding company structure, allowing their expansion into non-banking financial services activities that had previously been restricted. These activities include a full range of banking, securities and insurance activities, including securities and insurance underwriting, issuing and selling annuities and merchant banking activities. Moreover, the Corporation and its subsidiaries face increased competition from certain non-bank entities, such as financial technology companies and marketplace lenders, which may or may not be subject to the same regulatory compliance obligations as the Corporation. While the Corporation does not currently engage in many of the activities described above, further entry into these businesses may enhance the ability of the Corporation to compete in the future.

Market Share

Deposit market share information is compiled as of June 30 of each year by the Federal Deposit Insurance Corporation ("FDIC"). The Corporation's banks maintain branch offices in 52 counties across five states. In 15 of these counties, the Corporation ranked in the top five in deposit market share (based on deposits as of June 30, 2017). The following table summarizes information about the counties in which the Corporation has branch offices and its market position in each county:

County	State	Population (2018 Est.)	Banking Subsidiary	No. of Financial Institutions		Deposit Market Share (June 30, 2017)	
				Banks/ Thrifts	Credit Unions	Rank	%
Lancaster	PA	543,000	Fulton Bank, N.A.	20	13	1	27.3%
Berks.....	PA	415,000	Fulton Bank, N.A.	18	11	8	3.6%
Bucks.....	PA	626,000	Fulton Bank, N.A.	34	15	14	2.1%
Centre	PA	163,000	Fulton Bank, N.A.	16	4	10	3.2%
Chester.....	PA	520,000	Fulton Bank, N.A.	29	8	13	2.9%
Columbia	PA	66,000	FNB Bank, N.A.	6	3	5	4.0%
Cumberland	PA	252,000	Fulton Bank, N.A.	17	5	12	1.9%
Dauphin	PA	275,000	Fulton Bank, N.A.	17	10	6	5.2%
Delaware.....	PA	564,000	Fulton Bank, N.A.	30	13	27	0.3%
Lebanon.....	PA	140,000	Fulton Bank, N.A.	12	6	1	31.7%
Lehigh.....	PA	366,000	Lafayette Ambassador Bank	21	12	7	4.6%
Lycoming.....	PA	114,000	FNB Bank, N.A.	11	10	14	1.0%
Montgomery	PA	826,000	Fulton Bank, N.A.	39	28	22	0.5%
Montour.....	PA	18,000	FNB Bank, N.A.	6	3	2	22.1%
Northampton.....	PA	304,000	Lafayette Ambassador Bank	17	12	3	13.1%
Northumberland ...	PA	92,000	FNB Bank, N.A.	19	5	7	3.9%
			Swineford National Bank			13	2.3%
Schuylkill	PA	142,000	Fulton Bank, N.A.	13	2	10	4.1%
Snyder.....	PA	41,000	Swineford National Bank	8	1	2	26.0%
Union.....	PA	46,000	Swineford National Bank	10	3	5	7.1%
York.....	PA	446,000	Fulton Bank, N.A.	15	13	3	11.3%
New Castle	DE	561,000	Fulton Bank, N.A.	21	18	11	1.2%
Sussex.....	DE	227,000	Fulton Bank, N.A.	17	5	3	8.8%
Anne Arundel	MD	575,000	The Columbia Bank	28	10	18	0.6%
Baltimore	MD	835,000	The Columbia Bank	32	16	21	0.8%
Baltimore City.....	MD	610,000	The Columbia Bank	26	14	11	0.4%
Cecil	MD	103,000	The Columbia Bank	7	4	2	13.8%
Frederick.....	MD	251,000	The Columbia Bank	17	5	15	0.9%
Howard.....	MD	324,000	The Columbia Bank	20	5	4	8.6%
Montgomery	MD	1,058,000	The Columbia Bank	30	25	29	0.2%
Prince George's.....	MD	916,000	The Columbia Bank	19	24	21	0.6%
Washington.....	MD	151,000	The Columbia Bank	11	4	2	21.3%
Atlantic	NJ	269,000	Fulton Bank of New Jersey	14	7	11	1.8%
Burlington.....	NJ	449,000	Fulton Bank of New Jersey	20	11	14	1.2%
Camden.....	NJ	509,000	Fulton Bank of New Jersey	21	11	11	2.4%
Cumberland	NJ	152,000	Fulton Bank of New Jersey	12	5	13	1.9%
Gloucester.....	NJ	293,000	Fulton Bank of New Jersey	23	5	2	13.8%

County	State	Population (2018 Est.)	Banking Subsidiary	No. of Financial Institutions		Deposit Market Share (June 30, 2017)	
				Banks/ Thrifts	Credit Unions	Rank	%
Hunterdon.....	NJ	124,000	Fulton Bank of New Jersey	17	7	9	2.7%
Mercer	NJ	371,000	Fulton Bank of New Jersey	25	20	17	0.9%
Middlesex	NJ	841,000	Fulton Bank of New Jersey	45	26	27	0.3%
Monmouth	NJ	625,000	Fulton Bank of New Jersey	27	11	25	0.7%
Morris	NJ	499,000	Fulton Bank of New Jersey	35	16	14	1.4%
Ocean.....	NJ	597,000	Fulton Bank of New Jersey	20	8	15	1.2%
Salem.....	NJ	63,000	Fulton Bank of New Jersey	7	4	1	26.9%
Somerset	NJ	335,000	Fulton Bank of New Jersey	26	11	10	2.3%
Warren	NJ	106,000	Fulton Bank of New Jersey	12	3	5	7.7%
Chesapeake City ...	VA	242,000	Fulton Bank, N.A.	13	7	10	1.6%
Fairfax	VA	1,146,000	Fulton Bank, N.A.	37	29	42	—%
Henrico	VA	328,000	Fulton Bank, N.A.	24	14	23	0.5%
Manassas	VA	42,000	Fulton Bank, N.A.	12	4	10	1.9%
Newport News.....	VA	183,000	Fulton Bank, N.A.	12	7	12	0.7%
Richmond City	VA	227,000	Fulton Bank, N.A.	16	10	15	0.2%
Virginia Beach.....	VA	456,000	Fulton Bank, N.A.	15	13	10	1.6%

Supervision and Regulation

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

The Corporation is a registered financial holding company under the Bank Holding Company Act of 1956, as amended ("BHCA") and is regulated, supervised and examined by the Board of Governors of the Federal Reserve System ("Federal Reserve Board"). The Corporation's subsidiary banks are depository institutions whose deposits are insured by the FDIC. The following table summarizes the charter types and primary regulators for each of the Corporation's subsidiary banks:

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

OCC - Office of the Comptroller of the Currency

Federal statutes that apply to the Corporation and its subsidiaries include the GLB Act, the BHCA, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), the Federal Reserve Act, the National Bank Act and the Federal Deposit Insurance Act, among others. In general, these statutes, regulations promulgated thereunder, and related interpretations establish the eligible business activities of the Corporation, certain acquisition and merger restrictions, limitations on intercompany transactions, such as loans and dividends, cash reserve requirements, lending limitations, compliance with unfair, deceptive and abusive acts and practices prohibitions, limitations on investments, and capital adequacy requirements, among other things.

The following discussion is general in nature and seeks to highlight some of the more significant of the regulatory requirements to which the Corporation and its subsidiaries are subject, but does not purport to be complete or to describe all laws and regulations that are applicable.

BHCA - The Corporation is subject to regulation and examination by the Federal Reserve Board, and is required to file periodic reports and to provide additional information that the Federal Reserve Board may require. The BHCA regulates activities of bank holding companies, including requirements and limitations relating to capital, transactions with officers, directors and affiliates, securities issuances, dividend payments, extensions of credit, among others. The BHCA permits the Federal Reserve Board, in certain circumstances, to issue cease and desist orders and other enforcement actions against bank holding companies (and their non-banking affiliates) to correct or curtail unsafe or unsound banking practices. In addition, the Federal Reserve Board must approve certain proposed changes in organizational structure or other business activities before they occur. The BHCA imposes certain restrictions upon the Corporation regarding the acquisition of substantially all of the assets of, or direct or indirect ownership or control of, any bank for which it is not already the majority owner. In addition, under the Dodd-Frank Act and longstanding Federal Reserve Board policy, bank holding companies are required to act as a source of financial strength to each of their banking subsidiaries pursuant to which such holding company may be required to commit financial resources to support such subsidiaries in circumstances when, absent such requirements, they might not otherwise do so.

Dodd-Frank Act - The Dodd-Frank Act was enacted in July 2010 and resulted in significant financial regulatory reform. The Dodd-Frank Act also changed the responsibilities of the current federal banking regulators. Among other things, the Dodd-Frank Act established increased compliance obligations across a number of areas of the banking business and created the Financial Stability Oversight Council, with oversight authority for monitoring systemically important financial institutions ("SIFIs") and regulating systemic risk, and the Consumer Financial Protection Bureau ("CFPB"), which has broad regulatory and enforcement powers over consumer financial products and services. The CFPB is responsible for administering and enforcing numerous federal consumer financial laws enumerated in the Dodd-Frank Act. The CFPB has exclusive or primary supervision, examination and enforcement authority over banks with total assets of more than \$10 billion with respect to compliance with federal consumer financial laws. As of March 31, 2017, the Corporation's largest subsidiary bank, Fulton Bank, had \$10.8 billion in total assets and had total assets in excess of \$10 billion for the previous four consecutive quarters, and accordingly, it and the Corporation's other subsidiary banks are subject to the supervision, examination and enforcement jurisdiction of the CFPB with respect to federal consumer financial laws.

Stress Testing - In accordance with Federal Reserve Board rules governing company-run stress testing, the Corporation is required to conduct an annual stress test in the manner specified, and using assumptions for baseline, adverse and severely adverse scenarios announced by the Federal Reserve Board. The stress test is designed to assess the potential impact of the various scenarios on the Corporation's earnings, capital levels and capital ratios over a nine-quarter time horizon. The Corporation's board of directors and its senior management are required to consider the results of the stress test in the normal course of business, including as part of the Corporation's capital planning process and the evaluation of the adequacy of its capital, and to disclose summary stress test results to the public. The Corporation believes that both the quality and magnitude of its capital base are sufficient to support its current operations given its risk profile. The results of the annual stress testing process did not lead the Corporation to raise additional capital or alter the mix of its capital components. Pursuant to final rules published in October 2014 and December 2015, the Federal Reserve Board modified the start date of the stress test cycles so that, beginning in 2016, stress tests must be conducted using financial data as of December 31 of the prior year, the results of the stress test must be reported to the Federal Reserve Board on or before July 31 and a summary of the results of the stress test must be publicly disclosed between October 15 and October 31. The Corporation timely submitted its stress test report to the Federal Reserve Board before its required date of July 31, 2017, and a summary of the results was publicly disclosed on October 18, 2017, as required by the final rules.

Under similar rules adopted by the Office of the Comptroller of the Currency ("OCC"), the primary regulator of Fulton Bank, national banks with total consolidated assets of more than \$10 billion are also required to conduct annual stress tests. A national bank becomes subject to the annual stress testing requirement when the institution's total consolidated assets, calculated as the average of the institution's total consolidated assets, as reported on the institution's quarterly Call Reports, for the most recent four consecutive quarters exceeds \$10 billion. As of March 31, 2017, Fulton Bank had \$10.8 billion in total consolidated assets and had maintained a level of assets in excess of \$10 billion for four consecutive quarters. Accordingly, Fulton Bank is required to conduct annual stress tests in accordance with the OCC rules and as a result, will be required to submit its first stress test report to the OCC on or before July 31, 2018.

Consumer Financial Protection Laws and Enforcement - The CFPB and the federal banking agencies continue to focus attention on consumer protection laws and regulations. The CFPB is responsible for promoting fairness and transparency for mortgages, credit cards, deposit accounts and other consumer financial products and services and for interpreting and enforcing the federal consumer financial laws that govern the provision of such products and services. Federal consumer financial laws enforced by the CFPB include, but are not limited to, the Equal Credit Opportunity Act ("ECOA"), Truth in Lending Act ("TILA"), the Truth in Savings Act, HMDA, Real Estate Settlement Procedures Act ("RESPA"), the Fair Debt Collection Practices Act, and the Fair Credit Reporting Act. The CFPB is also authorized to prevent any institution under its authority from engaging in an unfair, deceptive, or abusive act or practice in connection with consumer financial products and services. As a residential mortgage lender,

the Corporation and its bank subsidiaries are subject to multiple federal consumer protection statutes and regulations, including, but not limited to, those referenced above.

In particular, fair lending laws prohibit discrimination in the provision of banking services, and the enforcement of these laws has been an increasing focus for the CFPB, the Department of Housing and Urban Development ("HUD"), and other regulators. Fair lending laws include ECOA and the Fair Housing Act ("FHA"), which outlaw discrimination in credit and residential real estate transactions on the basis of prohibited factors including, among others, race, color, national origin, gender, and religion. A lender may be liable for policies that result in a disparate treatment of, or have a disparate impact on, a protected class of applicants or borrowers. If a pattern or practice of lending discrimination is alleged by a regulator, then that agency may refer the matter to the U.S. Department of Justice ("DOJ") for investigation. Failure to comply with these and similar statutes and regulations can result in the Corporation and its bank subsidiaries becoming subject to formal or informal enforcement actions, the imposition of civil money penalties and consumer litigation.

The CFPB has exclusive examination and primary enforcement authority with respect to compliance with federal consumer financial protection laws and regulations by institutions under its supervision and is authorized, individually or jointly with the federal bank regulatory agencies, to conduct investigations to determine whether any person is, or has, engaged in conduct that violates such laws or regulations. The CFPB may bring an administrative enforcement proceeding or civil action in federal district court. In addition, in accordance with a memorandum of understanding entered into between the CFPB and the DOJ, the two agencies have agreed to coordinate efforts related to enforcing the fair lending laws, which includes information sharing and conducting joint investigations; however, as a result of recent leadership changes at the DOJ and CFPB, as well as changes in the enforcement policies and priorities of each agency, the extent to which such coordination will continue to occur in the near term is uncertain. As an independent bureau funded by the Federal Reserve Board, the CFPB may impose requirements that are more stringent than those of the other bank regulatory agencies.

As an insured depository institution with total assets of more than \$10 billion, Fulton Bank and the Corporation's other subsidiary banks are subject to the CFPB's supervisory and enforcement authorities. The Dodd-Frank Act also permits states to adopt stricter consumer protection laws and state attorneys general to enforce consumer protection rules issued by the CFPB. As a result, the Corporation's subsidiary banks operate in a stringent consumer compliance environment and may incur additional costs related to consumer protection compliance, including but not limited to potential costs associated with CFPB examinations, regulatory and enforcement actions and consumer-oriented litigation. The CFPB, other financial regulatory agencies, including the OCC, as well as the DOJ, have, over the past several years, pursued a number of enforcement actions against depository institutions with respect to compliance with fair lending laws.

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

Integrated disclosures under the Real Estate Settlement Procedures Act and the Truth in Lending Act - As required by the Dodd-Frank Act, the CFPB issued final rules revising and integrating previously separate disclosures required under RESPA and TILA in connection with certain closed-end consumer mortgage loans. These final rules became effective August 1, 2015 and require lenders to provide a new loan estimate, combining content from the former good faith estimate required under RESPA and the initial disclosures required under TILA, not later than the third business day after submission of a loan application, and a new closing disclosure, combining content of the former HUD-1 Settlement Statement required under RESPA and the final disclosures required under TILA, at least three days prior to the loan closing. The CFPB issued proposed amendments to the requirements in July 2016, which were finalized in July 2017.

Volcker Rule - As mandated by Section 619 of the Dodd-Frank Act (the "Volcker Rule"), the federal banking agencies, the SEC and Commodity Futures Trading Commission issued final rules in December 2013 (the "Final Rules") that prohibit banking entities

from (1) engaging in short-term proprietary trading for their own accounts, and (2) having certain ownership interests in, and relationships with, hedge funds or private equity funds, which are referred to as "covered funds." The Final Rules generally treat as a covered fund any entity that, absent the applicability of a separate exclusion, would be an "investment company" under the Investment Company Act of 1940 (the "1940 Act") but for the application of the exemptions from SEC registration set forth in Section 3(c)(1) (fewer than 100 beneficial owners) or Section 3(c)(7) (qualified purchasers) of the 1940 Act. The Final Rules also require regulated entities to establish an internal compliance program that is consistent with the extent to which it engages in proprietary trading and covered fund activities covered by the Volcker Rule. Although the Final Rules provide some tiering of compliance and reporting obligations based on size, the fundamental prohibitions of the Volcker Rule apply to banking entities of any size, including the Corporation. In December 2014, the Federal Reserve Board extended, until July 21, 2016, the date by which banking entities must conform their covered fund activities and investments to the requirements of the Final Rules, and in July 2016, the Federal Reserve Board granted an additional one-year extension of the conformance period to July 21, 2017.

In addition, in August 2017, the OCC published a notice and request for comment on whether certain aspects of the Volcker Rule should be revised to better accomplish the purposes the Dodd-Frank Act while decreasing the compliance burden on banking organizations and fostering economic growth. The request for comment invited input on ways in which to tailor the Volcker Rule's requirements and clarify key provisions that define prohibited and permissible activities, as well as input on how the federal regulatory agencies could implement the existing Volcker Rule more effectively without revising the Final Rules. Specifically, the OCC requested comments on the scope of entities subject to the Volcker Rule, the proprietary trading prohibition, the covered funds prohibition, and the compliance program and metrics reporting requirements. We cannot predict whether regulations that would simplify compliance with the Final Rules will be adopted or, if such regulations were to be adopted, the extent to which they would reduce our compliance burdens.

The Corporation does not engage in proprietary trading or in any other activities prohibited by the Final Rules, and, based on the Corporation's evaluation of its investments, none fell within the definition of a "covered fund" and none needed to be disposed of by July 31, 2017. The Corporation does not currently expect that the Final Rules will have a material effect on its business, financial condition or results of operations.

Capital Requirements - There are a number of restrictions on financial and bank holding companies and FDIC-insured depository subsidiaries that are designed to minimize potential loss to depositors and the FDIC insurance funds. Also, a bank holding company is required to serve as a source of financial strength to its depository institution subsidiaries and to commit resources to support such institutions in circumstances where it might not do so absent such policy. Under the BHCA, the Federal Reserve Board has the authority to require a bank holding company to terminate any activity or to relinquish control of a non-bank subsidiary upon the Federal Reserve Board's determination that such activity or control constitutes a serious risk to the financial soundness and stability of a depository institution subsidiary of the bank holding company.

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

In July 2013, the Federal Reserve Board approved final rules (the "U.S. Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations and implementing the Basel's December 2010 framework for strengthening international capital standards. The U.S. Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions.

The minimum regulatory capital requirements established by the U.S. Basel III Capital Rules became effective for the Corporation on January 1, 2015, and will be fully phased in on January 1, 2019.

The U.S. Basel III Capital Rules require the Corporation and its bank subsidiaries to:

- Meet a minimum Common Equity Tier 1 ("CET1") capital ratio of 4.50% of risk-weighted assets and a minimum Tier 1 capital ratio of 6.00% of risk-weighted assets;
- Continue to require a minimum Total capital ratio of 8.00% of risk-weighted assets and a minimum Tier 1 leverage capital ratio of 4.00% of average assets; and
- Comply with a revised definition of capital to improve the ability of regulatory capital instruments to absorb losses. Certain non-qualifying capital instruments, including cumulative preferred stock and TruPS, have been phased out as a component of Tier 1 capital for institutions of the Corporation's size.

The U.S. Basel III Capital Rules use a standardized approach for risk weightings that expand the risk-weightings for assets and off balance sheet exposures from the previous 0%, 20%, 50% and 100% categories to a much larger and more risk-sensitive number of categories, depending on the nature of the assets and off-balance sheet exposures and resulting in higher risk weights for a variety of asset categories. In November 2017, the federal banking agencies adopted a final rule to extend the regulatory capital treatment applicable during 2017 under Basel III for certain items, including regulatory capital deductions, risk weights, and certain minority interest limitations. The relief provided under the final rule applies to banking organizations that are not subject to the capital rules' advanced approaches, such as the Corporation. Specifically, the final rule extends the current regulatory capital treatment of mortgage servicing assets ("MSAs"), deferred tax assets ("DTAs") arising from temporary differences that could not be realized through net operating loss carrybacks, significant investments in the capital of unconsolidated financial institutions in the form of common stock, non-significant investments in the capital of unconsolidated financial institutions, significant investments in the capital of unconsolidated financial institutions that are not in the form of common stock, and CET1 minority interest, tier 1 minority interest, and total capital minority interest exceeding applicable minority interest limitations.

When fully phased in on January 1, 2019, the Corporation and its bank subsidiaries will also be required to maintain a "capital conservation buffer" of 2.50% above the minimum risk-based capital requirements. The required minimum capital conservation buffer began to be phased in incrementally, starting at 0.625%, on January 1, 2016, increasing to 1.25% on January 1, 2017, and will continue to increase, to 1.875% on January 1, 2018 and 2.50% on January 1, 2019. The rules provide that the failure to maintain the "capital conservation buffer" will result in restrictions on capital distributions and discretionary cash bonus payments to executive officers. As a result, under the U.S. Basel III Capital Rules, if any of the Corporation's bank subsidiaries fails to maintain the required minimum capital conservation buffer, the Corporation will be subject to limits, and possibly prohibitions, on its ability to obtain capital distributions from such subsidiaries. If the Corporation does not receive sufficient cash dividends from its bank subsidiaries, it may not have sufficient funds to pay dividends on its capital stock, service its debt obligations or repurchase its common stock. In addition, the restrictions on payments of discretionary cash bonuses to executive officers may make it more difficult for the Corporation to retain key personnel. As of December 31, 2017, the Corporation met the fully-phased in minimum capital requirements, including the new capital conservation buffer, as prescribed in the U.S. Basel III Capital Rules.

In October 2017, the federal banking agencies issued a notice of proposed rulemaking on simplifications to Basel III, a majority of which would apply solely to banking organizations that are not subject to the advanced approaches capital rules. Under the proposed rulemaking, non-advanced approaches banking organizations, such as the Corporation and Fulton Bank, would apply a simpler regulatory capital treatment for MSAs, certain DTAs, investments in the capital of unconsolidated financial institutions, and capital issued by a consolidated subsidiary of a banking organization and held by third parties. Specifically, the proposed rulemaking would eliminate: (i) the 10 percent CET1 capital deduction threshold that applies individually to MSAs, temporary difference DTAs, and significant investments in the capital of unconsolidated financial institutions in the form of common stock; (ii) the aggregate 15 percent CET1 capital deduction threshold that subsequently applies on a collective basis across such items; (iii) the 10 percent CET1 capital deduction threshold for non-significant investments in the capital of unconsolidated financial institutions; and (iv) the deduction treatment for significant investments in the capital of unconsolidated financial institutions not in the form of common stock. Basel III would no longer have distinct treatments for significant and non-significant investments in the capital of unconsolidated financial institutions, but instead would require that non-advanced approaches banking organizations deduct from CET1 capital any amount of MSAs, temporary difference DTAs, and investments in the capital of unconsolidated financial institutions that individually exceeds 25 percent of CET1 capital. The proposed rulemaking also includes revisions to the treatment of certain acquisition, development, or construction exposures that are designed to address comments regarding the current definition of high volatility commercial real estate exposure under the capital rule's standardized approach.

In December 2017, the Basel Committee on Banking Supervision published the last version of the Basel III accord, generally referred to as "Basel IV." The Basel Committee stated that a key objective of the revisions incorporated into the framework is to reduce excessive variability of risk-weighted assets, which will be accomplished by enhancing the robustness and risk sensitivity of the standardized approaches for credit risk and operational risk, which will facilitate the comparability of banks' capital ratios; constraining the use of internally-modeled approaches; and complementing the risk-weighted capital ratio with a finalized leverage ratio and a revised and robust capital floor. Leadership of the Federal Reserve Board, OCC, and FDIC, who are tasked with implementing Basel IV, supported the revisions. Although it is uncertain at this time, we anticipate some, if not all, of the Basel IV accord may be incorporated into the capital requirements framework applicable to the Corporation and Fulton Bank.

The Basel III liquidity framework also includes new liquidity requirements that require financial institutions to maintain increased levels of liquid assets or alter their strategies for liquidity management. The Basel III liquidity framework requires banks and bank holding companies to measure their liquidity against specific ratios. In September 2014, the Federal Reserve Board approved final rules (the "U.S. Liquidity Coverage Ratio Rule") implementing portions of the Basel III liquidity framework for large, internationally active banking organizations, generally those having \$250 billion or more in total assets, and similar, but less stringent, rules, applicable to bank holding companies with consolidated assets of \$50 billion or more. The U.S. Liquidity Coverage Ratio Rule requires banking organizations to maintain a Liquidity Coverage Ratio ("LCR") that is designed to ensure that sufficient

high quality liquid resources are available for a one month period in case of a stress scenario. Impacted financial institutions were required to be compliant with the U.S. Liquidity Coverage Ratio Rule by January 1, 2017. The Corporation's total assets and the scope of its operations do not currently meet the thresholds set forth in the U.S. Liquidity Coverage Ratio Rule, and, as a result of which the Corporation is not currently required to maintain a minimum LCR.

The Basel III liquidity framework also introduced a second ratio, referred to as the Net Stable Funding Ratio ("NSFR"), which is designed to promote funding resiliency over longer-term time horizons by creating additional incentives for banks to fund their activities with more stable sources of funding on an ongoing structural basis. The federal banking agencies published a notice of proposed rulemaking regarding the NSFR in May 2016. In June 2017, the U.S. Treasury Department ("UST") recommended a delay in the implementation of the proposed NSFR out of concern that the rule could be duplicative of the liquidity requirements discussed above and could therefore impose unnecessary compliance costs upon banking organizations. Accordingly, the prospects for final implementation of the federal banking agencies' proposed NSFR are uncertain at this time. Because of the Corporation's size, neither the U.S. Liquidity Coverage Ratio Rule nor any additional proposed rules under the Basel III liquidity framework are applicable to it.

Prompt Corrective Regulatory Action - The Federal Deposit Insurance Corporation Improvement Act ("FDICIA") established a system of prompt corrective action to resolve the problems of undercapitalized institutions. Under this system, the federal bank regulators are required to take certain, and authorized to take other, supervisory actions against undercapitalized institutions, based upon five categories of capitalization which FDICIA created: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized," the severity of which depends upon the institution's degree of capitalization. Generally, a capital restoration plan must be filed with the institution's primary federal regulator within 45 days of the date an institution receives notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized," and the plan must be guaranteed by any parent holding company. In addition, various mandatory supervisory actions become immediately applicable to the institution, including restrictions on growth of assets and other forms of expansion. An insured depository institution is treated as well capitalized if its total risk-based capital ratio is 10.00% or greater, its Tier 1 risk-based capital ratio is 8.00% or greater, its CET1 risk-based capital ratio is 6.50% or greater and its Tier 1 leverage capital ratio is 5.00% or greater, and it is not subject to any order or directive to meet a specific capital level. As of December 31, 2017, each of the Corporation's bank subsidiaries' capital ratios was above the minimum levels required to be considered "well capitalized" by its primary federal regulator.

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

For safety and soundness reasons, banking regulations also limit the amount of cash that can be transferred from subsidiary banks to the parent company in the form of dividends. Dividend limitations vary, depending on the subsidiary bank's charter and whether or not it is a member of the Federal Reserve System. Generally, subsidiaries are prohibited from paying dividends when doing so would cause them to fall below the regulatory minimum capital levels. Additionally, limits may exist on paying dividends in excess of net income for specified periods. See "Note 11 - Regulatory Matters," in the Notes to Consolidated Financial Statements in Item 8 "Financial Statements and Supplementary Data" for additional information regarding regulatory capital and dividend and loan limitations.

Federal Deposit Insurance - Substantially all of the deposits of the Corporation's subsidiary banks are insured up to the applicable limits by the Deposit Insurance Fund ("DIF") of the FDIC, generally up to \$250,000 per insured depositor. The Corporation's subsidiary banks pay deposit insurance premiums based on assessment rates established by the FDIC. The FDIC has established a risk-based assessment system under which institutions are classified and pay premiums according to their perceived risk to the DIF. An institution's base assessment rate is generally subject to following adjustments: (1) a decrease for the institution's long-term unsecured debt, including most senior and subordinated debt, (2) an increase for brokered deposits above a threshold amount and (3) an increase for unsecured debt held that is issued by another insured depository institution. In addition, the FDIC possesses backup enforcement authority over a depository institution holding company, such as the Corporation, if the conduct or threatened conduct of such holding company poses a risk to the DIF, although such authority may not be used if the holding company is generally in sound condition and does not pose a foreseeable and material risk to the DIF.

On April 1, 2011, as required by the Dodd-Frank Act, the deposit insurance assessment base changed from total domestic deposits to average total assets, minus average tangible equity. In addition, the FDIC also created a two scorecard system, one for large

depository institutions that have \$10 billion or more in assets and another for highly complex institutions that have \$50 billion or more in assets. As of July 1, 2017, the Corporation's largest subsidiary bank, Fulton Bank, became subject to a modified methodology for calculating FDIC insurance assessments and potentially higher assessment rates as a result of institutions with \$10 billion or more in assets being required to bear the cost of raising the FDIC reserve ratio to 1.35% as required by the Dodd-Frank Act.

The FDIC annually establishes for the DIF a designated reserve ratio, or DRR, of estimated insured deposits. The FDIC has announced that the DRR for 2018 will remain at 2.00%, which is the same ratio that has been in effect since January 1, 2011. The FDIC is authorized to change deposit insurance assessment rates as necessary to maintain the DRR, without further notice-and-comment rulemaking, provided that: (1) no such adjustment can be greater than three basis points from one quarter to the next, (2) adjustments cannot result in rates more than three basis points above or below the base rates and (3) rates cannot be negative.

The Dodd-Frank Act increased the minimum DIF reserve ratio to 1.35% of insured deposits, which must be reached by September 30, 2020, and provides that, in setting the assessment rates necessary to meet the new requirement, the FDIC shall offset the effect of this provision on insured depository institutions with total consolidated assets of less than \$10 billion, so that more of the cost of raising the reserve ratio will be borne by the institutions with more than \$10 billion in assets. In October 2010, the FDIC adopted a restoration plan to ensure that the DIF reserve ratio reaches 1.35% by September 30, 2020.

On October 22, 2015, the FDIC issued a proposal to increase the reserve ratio for the DIF to the minimum level of 1.35% as required by the Reform Act. The FDIC adopted the final rule, which became effective on July 1, 2016, that imposes on insured depository institutions with \$10 billion or more in total consolidated assets (such as Fulton Bank) a quarterly surcharge equal to an annual rate of 4.5 basis points applied to the deposit insurance assessment base, after making certain adjustments. In addition, the Tax Cuts and Jobs Act of 2017 (the "Tax Act"), which was signed into law on December 22, 2017, disallows the deduction of FDIC deposit insurance premium payments for banking organizations with total consolidated assets of \$50 billion or more. For banks with less than \$50 billion in total consolidated assets, such as Fulton Bank, the premium deduction is phased out based on the proportion of the bank's assets exceeding \$10 billion. See discussion under Item 1.A. "Risk Factors - The financial services industry, as well as the broader economy, may be subject to new legislation which could result in significant changes in banking and financial services regulation."

AML Requirements and the USA Patriot Act - Anti-terrorism legislation enacted under the USA Patriot Act of 2001 ("Patriot Act") amended the BSA and expanded the scope of AML laws and regulations, imposing significant new compliance obligations for financial institutions, including the Corporation's subsidiary banks. The Patriot Act gives the federal government powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing and broadened AML requirements. By way of amendments to the BSA, Title III of the Patriot Act takes measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, these regulations impose affirmative obligations on a wide range of financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing.

Among other requirements, the Patriot Act and the related regulations impose the following requirements with respect to financial institutions:

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

Failure to comply with the requirements of the Patriot Act and other AML laws and regulations could have serious legal, financial, regulatory and reputational consequences. In addition, bank regulators will consider a holding company's effectiveness in combating money laundering when ruling on BHCA and Bank Merger Act applications. In May 2016, the regulations implementing the BSA were amended to explicitly include risk-based procedures for conducting ongoing customer due diligence, to include understanding the nature and purpose of customer relationships for the purpose of developing a customer risk profile. In addition, banks must identify and verify the identity of the beneficial owners of all legal entity customers (other than those that are excluded) at the time a new account is opened (other than accounts that are exempted). The Corporation and its banking subsidiaries must comply with these amendments and new requirements by May 11, 2018. The Corporation has adopted policies, procedures and controls to address compliance with the Patriot Act and will continue to revise and update its policies, procedures and controls to reflect required changes (including the May 2016 amendments).

The Corporation and three of its banking subsidiaries are currently subject to regulatory enforcement orders (the "Consent Orders") issued by bank regulatory agencies relating to identified deficiencies in a largely centralized compliance program (the "BSA/AML Compliance Program") designed to comply with the BSA, the Patriot Act and related anti-money laundering regulations (the "BSA/AML Requirements"). The Consent Orders require, among other things, that the Corporation and its banking subsidiaries review, assess and take actions to strengthen and enhance the BSA/AML Compliance Program, and, in some cases, conduct retrospective reviews of past account activity and transactions, as well as certain reports filed in accordance with the BSA/AML Requirements, to determine whether suspicious activity and certain transactions in currency were properly identified and reported in accordance with the BSA/AML Requirements. See Item 1A. "Risk Factors - Legal, Compliance and Reputational Risks - "The Corporation and three of its bank subsidiaries are subject to regulatory enforcement orders requiring improvement in compliance functions and remedial actions;" and Note-17 Commitments and Contingencies - Legal Proceedings," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data."

Commercial Real Estate Guidance - In December 2015, the federal banking agencies released a statement entitled "Statement on Prudent Risk Management for Commercial Real Estate Lending" (the "CRE Statement"). In the CRE Statement, the agencies express concerns with institutions which ease commercial real estate underwriting standards, direct financial institutions to maintain underwriting discipline and exercise risk management practices to identify, measure and monitor lending risks, and indicate that they will continue to pay special attention to commercial real estate lending activities and concentrations going forward. The agencies previously issued guidance in December 2006, entitled "Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices," which states that an institution is potentially exposed to significant commercial real estate concentration risk, and should employ enhanced risk management practices, where (1) total commercial real estate loans represents 300% or more of its total capital and (2) the outstanding balance of such institution's commercial real estate loan portfolio has increased by 50% or more during the prior 36 months.

Community Reinvestment - Under the Community Reinvestment Act ("CRA"), each of the Corporation's subsidiary banks has a continuing and affirmative obligation, consistent with its safe and sound operation, to ascertain and meet the credit needs of its entire community, including low and moderate income areas. The CRA does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community. The CRA requires an institution's primary federal regulator, in connection with its examination of the institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The assessment focuses on three tests: (1) a lending test, to evaluate the institution's record of making loans, including community development loans, in its designated assessment areas; (2) an investment test, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low- or moderate-income individuals and areas and small businesses; and (3) a service test, to evaluate the institution's delivery of banking services throughout its CRA assessment area, including low- and moderate-income areas. The CRA also requires all institutions to make public disclosure of their CRA ratings. As of December 31, 2017, all of the Corporation's subsidiary banks are rated at least as "satisfactory." Regulations require that the Corporation's subsidiary banks publicly disclose certain agreements that are in fulfillment of CRA. None of the Corporation's subsidiary banks are party to any such agreements at this time.

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

The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. In July 2010, the federal banking agencies issued Guidance on Sound Incentive Compensation Policies ("Guidance") that applies to all banking organizations supervised by the agencies (thereby including both the Corporation and its banking subsidiaries). Pursuant to the Guidance, to be consistent with safety and soundness principles, a banking organization's incentive compensation arrangements should: (1) provide employees with incentives that appropriately balance risk and reward; (2) be compatible with effective controls and risk management; and (3) be supported by strong corporate governance, including active and effective oversight by the banking organization's board of directors. Monitoring methods and processes used by a

banking organization should be commensurate with the size and complexity of the organization and its use of incentive compensation.

Section 956 of the Dodd-Frank Act requires the federal banking agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities that encourage inappropriate risk-taking by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits or that could lead to material financial loss to the entity. The federal banking agencies issued such proposed rules in April 2011 and issued a revised proposed rule in June 2016, implementing the requirements and prohibitions set forth in Section 956. The revised proposed rule would apply to all banks, among other institutions, with at least \$1 billion in average total consolidated assets, for which it would go beyond the existing Guidance to (i) prohibit certain types and features of incentive-based compensation arrangements for senior executive officers, (ii) require incentive-based compensation arrangements to adhere to certain basic principles to avoid a presumption of encouraging inappropriate risk, (iii) require appropriate board or committee oversight, (iv) establish minimum record keeping and (v) mandate disclosures to the appropriate federal banking agency.

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

The Corporation's bank subsidiaries are subject to regulatory guidelines establishing standards for safeguarding customer information. These regulations implement certain provisions of the GLB Act. The guidelines describe the federal bank regulatory agencies' expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to ensure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer. These guidelines, along with related regulatory materials, increasingly focus on risk management and processes related to information technology and the use of third parties in the provision of financial services. In October 2016, the federal banking agencies issued an advance notice of proposed rulemaking on enhanced cybersecurity risk-management and resilience standards that would apply to large and interconnected banking organizations and to services provided by third parties to these firms. These enhanced standards would apply only to depository institutions and depository institution holding companies with total consolidated assets of \$50 billion or more. The federal banking agencies have not yet taken further action on these proposed standards.

Federal Reserve System - Federal Reserve Board regulations require depository institutions to maintain cash reserves against their transaction accounts (primarily NOW and demand deposit accounts). A reserve of 3% must be maintained against aggregate transaction account balances of between \$16 million and \$122.3 million (subject to adjustment by the Federal Reserve Board) plus a reserve of 10% (subject to adjustment by the Federal Reserve Board within a range of between 8% and 14%) against that portion of total transaction account balances in excess of \$122.3 million. The first \$16 million of otherwise reservable balances (subject to adjustment by the Federal Reserve Board) is exempt from the reserve requirements. Each of the Corporation's bank subsidiaries is in compliance with the foregoing requirements.

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

Activities and Acquisitions - The BHC Act requires a bank holding company to obtain the prior approval of the Federal Reserve Board before:

- the company may acquire direct or indirect ownership or control of any voting shares of any bank or savings and loan association, if after such acquisition the bank holding company will directly or indirectly own or control more than five percent of any class of voting securities of the institution;
- any of the company's subsidiaries, other than a bank, may acquire all or substantially all of the assets of any bank or savings and loan association; or
- the company may merge or consolidate with any other bank or financial holding company.

The Riegle-Neal Act generally permits bank holding companies to acquire banks in any state, and preempts all state laws restricting the ownership by a holding company of banks in more than one state. The Riegle-Neal Act also permits a bank to merge with an out-of-state bank and convert any offices into branches of the resulting bank, acquire branches from an out-of-state bank, and establish and operate de novo interstate branches whenever the host state permits de novo branching of its own state-chartered banks.

Bank or financial holding companies and banks seeking to engage in mergers authorized by the Reigle-Neal Act must be at least adequately capitalized as of the date that the application is filed, and the resulting institution must be well-capitalized and managed upon consummation of the transaction.

The Change in Bank Control Act prohibits a person, entity or group of persons or entities acting in concert, from acquiring "control" of a bank holding company or bank unless the Federal Reserve Board has been given prior notice and has not objected to the transaction. Under Federal Reserve Board regulations, the acquisition of 10% or more (but less than 25%) of the voting stock of a corporation would, under the circumstances set forth in the regulations, create a rebuttable presumption of acquisition of control of the corporation.

Federal Securities Laws - The Corporation is subject to the periodic reporting, proxy solicitation, tender offer, insider trading, corporate governance and other requirements under the Securities Exchange Act of 1934. Among other things, the federal securities laws require management to issue a report on the effectiveness of its internal controls over financial reporting. In addition, the Corporation's independent registered public accountants are required to issue an opinion on the effectiveness of the Corporation's internal control over financial reporting. These reports can be found in Part II, Item 8, "Financial Statements and Supplementary Data." Certifications of the Chief Executive Officer and the Chief Financial Officer as required by the Sarbanes-Oxley Act of 2002 and the resulting SEC rules can be found in the "Signatures" and "Exhibits" sections.

Executive Officers

The executive officers of the Corporation are as follows:

Name	Age ⁽¹⁾	Office Held and Term of Office
E. Philip Wenger	60	Director of the Corporation since 2009. Chairman of the Board and Chief Executive Officer of the Corporation since January 2013. Mr. Wenger previously served as President of the Corporation from 2008 to 2017, Chief Operating Officer of the Corporation from 2008 to 2012, a Director of Fulton Bank, N.A. from 2003 to 2009, Chairman of Fulton Bank, N.A. from 2006 to 2009 and has been employed by the Corporation in a number of positions since 1979.
Philmer H. Rohrbaugh	65	Senior Executive Vice President and interim Chief Financial Officer of the Corporation effective December 6, 2016. He joined the Corporation in November 2012 as Senior Executive Vice President and Chief Risk Officer and became Senior Executive Vice President and Chief Operating Officer effective June 1, 2016. Mr. Rohrbaugh was a managing partner of KPMG, LLP's Chicago office from 2009 to 2012; Vice Chairman Industries and part of the U.S. Management Committee of KPMG from 2006 to 2009; he joined KPMG in 2002. He has more than 35 years of experience in public accounting with substantial audit experience serving public and private companies, including financial institutions, and advising companies on accounting, financial reporting matters, equity and debt offerings, and merger and acquisition transactions. Mr. Rohrbaugh currently serves as a director of a public manufacturing company and a national department store chain.
Mark R. McCollom	53	Senior Executive Vice President of the Corporation, and Chief Financial Officer Designee since November 2017. Mr. McCollom was a Senior Managing Director, Chief Administrative Officer and CEO of Griffin Financial Group, LLC prior to joining the Corporation. Prior to his role at Griffin Financial Group, Mr. McCollom was the Chief Financial Officer of Sovereign Bancorp, Inc. He has over 30 years of experience in the financial services industry.
Curtis J. Myers	49	President and Chief Operating Officer of the Corporation since January 1, 2018. Mr. Myers served as Senior Executive Vice President of the Corporation from July 2013 to December 2017. President and Chief Operating Officer of Fulton Bank, N.A. since February 2009. He served as Executive Vice President of the Corporation since August 2011. Mr. Myers has been employed by Fulton Bank, N.A. in a number of positions since 1990.
David M. Campbell	56	Senior Executive Vice President, and Director of Strategic Initiatives and Operations since December 2014. Mr. Campbell joined the Corporation as Chief Administrative Officer of Fulton Financial Advisors, a division of Fulton Bank, N.A. in 2009, and was promoted to President of Fulton Financial Advisors in 2010. He has more than 30 years of experience in financial services.
Beth Ann L. Chivinski	57	Senior Executive Vice President and Chief Risk Officer of the Corporation effective June 1, 2016. She served as the Corporation's Chief Audit Executive April 2013 - June 2016 and was promoted to Senior Executive Vice President of the Corporation in 2014. Prior to that, she served as the Corporation's Executive Vice President, Controller and Chief Accounting Officer from June 2004 to March 31, 2013. Ms. Chivinski has worked in various positions with the Corporation since June of 1994. She is a Certified Public Accountant.
Meg R. Mueller	53	Senior Executive Vice President and Head of Commercial Business since January 1, 2018. Ms. Mueller served as Chief Credit Officer of the Corporation from 2010 - 2017 and was promoted to Senior Executive Vice President of the Corporation in 2013. Ms. Mueller has been employed by the Corporation in a number of positions since 1996.
Craig A. Roda	61	Senior Executive Vice President of Community Banking of the Corporation since July 2011; and Chairman and Chief Executive Officer of Fulton Bank, N.A., since February 2009. Chief Executive Officer and President of Fulton Bank, N.A. from 2006 to 2009. Mr. Roda has been employed by the Corporation in a number of positions since 1979.
Angela M. Sargent	50	Senior Executive Vice President and Chief Information Officer of the Corporation since July 2013. Ms. Sargent served as Executive Vice President and Chief Information Officer from 2002 - 2013 and has been employed by the Corporation in a number of positions since 1992.

Name	Age ⁽¹⁾	Office Held and Term of Office
Angela M. Snyder	53	Senior Executive Vice President and Head of Consumer Banking since January 1, 2018. Ms. Snyder also serves as Chairwoman, CEO and President of Fulton Bank of New Jersey. In 2002, Angela Snyder began her career with the Corporation as President of Woodstown National Bank, now Fulton Bank of New Jersey. Ms. Snyder served as the Chairwoman of the New Jersey Bankers Association in 2017. She has more than 30 years of experience in the financial services industry.
Daniel R. Stolzer	61	Senior Executive Vice President, Chief Legal Officer and Corporate Secretary since January 1, 2018. Mr. Stolzer joined the Corporation in 2013 as Executive Vice President, General Counsel and Corporate Secretary. Mr. Stolzer began his career with a large New York law firm and then served as deputy general counsel and chief counsel at several large regional bank holding companies. He has more than 30 years of experience working in financial services law.
Bernadette M. Taylor	56	Senior Executive Vice President, and Chief Human Resource Officer since May 2015. In 2001, she was promoted to Senior Vice President of employee services. She served as Executive Vice President of employee services, employment, and director of human resources before her promotion in 2015 to Chief Human Resources Officer. Ms. Taylor joined the Corporation in 1994 as Corporate Training Director at Fulton Financial Corporation.

(1) As of December 31, 2017

Item 1A. Risk Factors

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

ECONOMIC AND CREDIT RISKS.

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

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

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

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

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. While the Corporation believes that its allowance for credit losses as of December 31, 2017 is sufficient to cover incurred losses in the loan portfolio on that date, the Corporation may need to increase its provision for credit losses due to changes in the risk characteristics of the loan portfolio, thereby negatively impacting its results of operations.

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

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

If the Corporation's assumptions and judgments regarding such matters prove to be inaccurate, its allowance for credit losses might not be sufficient, and additional provisions for credit losses might need to be made. Depending on the amount of such provisions for credit losses, the adverse impact on the Corporation's earnings could be material.

Furthermore, banking regulators may require the Corporation to make additional provisions for credit losses or otherwise recognize further loan charge-offs or impairments following their periodic reviews of the Corporation's loan portfolio, underwriting procedures and allowance for credit losses. Any increase in the Corporation's allowance for credit losses or loan charge-offs as required by such regulatory agencies could have a material adverse effect on the Corporation's financial condition and results of operations. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations-Financial Condition-Provision and Allowance for Credit Losses."

The composition of the Corporation's loan portfolio and competition subject the Corporation to credit risk.

Approximately 74.0% of the Corporation's loan portfolio was in commercial loans, commercial mortgage loans, and construction loans at December 31, 2017. Commercial loans, commercial mortgage loans and construction loans generally involve a greater degree of credit risk than residential mortgage loans and consumer loans because they typically have larger balances and are likely to be more sensitive to broader economic factors and conditions. Because payments on these loans often depend on the successful operation and management of businesses and properties, repayment of such loans may be affected by factors outside the borrower's control, such as adverse conditions in the real estate markets, adverse economic conditions or changes in government regulation. In recent years, commercial real estate markets have been experiencing substantial growth, and increased competitive pressures have contributed significantly to historically low capitalization rates and rising property values. Commercial real estate prices, according to many U.S. commercial real estate indices, are currently above the 2007 peak levels that contributed to the financial crisis. Accordingly, the federal bank regulatory agencies have expressed concerns about weaknesses in the current commercial real estate market and the extent to which prevailing underwriting standards have been eased by lenders. The Corporation's failure to adequately implement enhanced risk management policies, procedures and controls could adversely affect its ability to increase this portfolio going forward and could result in an increased rate of delinquencies in, and increased losses from, this portfolio.

Furthermore, intense competition among both bank and non-bank lenders, coupled with moderate levels of recent economic growth, can increase pressure on the Corporation to relax its credit standards and/or underwriting criteria in order to achieve the Corporation's loan growth targets. A relaxation of credit standards or underwriting criteria could result in greater challenges in the repayment or collection of loans should economic conditions, or individual borrower performance, deteriorate to a degree that could impact loan performance. Additionally, competitive pressures could drive the Corporation to consider loans and customer relationships that are outside of the Corporation's established risk appetite or target customer base. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations-Financial Condition-Loans."

MARKET RISKS.

The Corporation is subject to interest rate risk.

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

Net interest income is the difference between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Net interest income is the most significant component of the Corporation's net income, accounting for approximately 74% of total revenues in 2017. In recent years, the narrowing of interest rate spreads, the difference between interest rates earned on loans and investments and interest rates paid on deposits and borrowings, has adversely affected the Corporation's net interest income.

Comparatively low market interest rates have pressured the net interest margin in recent years. Interest-earning assets, such as loans and investments, have been originated, acquired or repriced at lower rates, reducing the average rate earned on those assets. While the average rate paid on interest-bearing liabilities, such as deposits and borrowings, has also declined, the decline has not always occurred at the same pace as the decline in the average rate earned on interest-earning assets, resulting in a narrowing of the net interest margin. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations-Net Interest Income."

Changes in interest rates may also affect the average life of loans and certain investment securities, most notably mortgage-backed securities. Decreases in interest rates can result in increased prepayments of loans and certain investment securities, as borrowers or issuers refinance to reduce their borrowing costs. Under those circumstances, the Corporation would be subject to reinvestment risk to the extent that it is not able to reinvest the cash received from such prepayments at rates that are comparable to the rates on the loans and investment securities which are prepaid. Conversely, increases in interest rates may extend the average life of fixed rate assets, which could restrict the Corporation's ability to reinvest in higher yielding alternatives, and may result in customers withdrawing certificates of deposit early so long as the early withdrawal penalty is less than the interest they could receive as a result of the higher interest rates. The Federal Open Market Committee ("FOMC") of the Federal Reserve Board increased the federal funds rate three times during 2017, and recent statements from the FOMC have caused research analysts and economists to expect additional increases in 2018. In addition, the bond markets have experienced rate increases for medium- and longer-term instruments.

Changes in interest rates also affect the fair value of interest-earning investment securities. Generally, the value of interest-earning investment securities moves inversely with changes in interest rates. In the event that the fair value of an investment security declines below its amortized cost, the Corporation is required to determine whether the decline constitutes an other-than-temporary impairment. The determination of whether a decline in fair value is other-than-temporary depends on a number of factors, including whether the Corporation has the intent and ability to retain the investment security for a period of time sufficient to allow for any anticipated recovery in fair value.

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

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

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

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

The Corporation's investment management and trust services revenue, which is partially based on the value of the underlying investment portfolios, can also be impacted by fluctuations in the securities markets. If the values of those investment portfolios decrease, whether due to factors influencing U.S. or international securities markets, in general, or otherwise, the Corporation's revenue could be negatively impacted. In addition, the Corporation's ability to sell its brokerage services is dependent, in part, upon consumers' level of confidence in securities markets. See Item 7A. "Quantitative and Qualitative Disclosures About Market Risk."

LIQUIDITY RISK.

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

The Corporation must maintain sufficient sources of liquidity to meet the demands of its depositors and borrowers, support its operations and meet regulatory expectations. The Corporation's liquidity management policies and practices emphasize core deposits and repayments and maturities of loans and investments as its primary sources of liquidity. These primary sources of liquidity can be supplemented by Federal Home Loan Bank ("FHLB") advances, borrowings from the Federal Reserve Bank, proceeds from the sales of loans and use of liquidity resources of the holding company, including capital markets funding. Lower-cost, core deposits may be adversely affected by changes in interest rates, and secondary sources of liquidity can be more costly to the Corporation than funding provided by deposit account balances having similar maturities. In addition, adverse changes in the Corporation's results of operations or financial condition, downgrades in the Corporation's credit ratings, regulatory actions involving the Corporation, or changes in regulatory, industry or market conditions could lead to increases in the cost of these secondary sources of liquidity, the inability to refinance or replace these secondary funding sources as they mature, or the withdrawal of unused borrowing capacity under these secondary funding sources.

While the Corporation attempts to manage its liquidity through various techniques, the assumptions and estimates used do not always accurately forecast the impact of changes in customer behavior. For example, the Corporation may face limitations on its ability to fund loan growth if customers move funds out of the Corporation's bank subsidiaries' deposit accounts in response to increases in interest rates. In the years following the 2008 financial crisis, even as the general level of market interest rates remained low by historical standards, depositors frequently avoided higher-yielding and higher-risk alternative investments, in favor of the safety and liquidity of non-maturing deposit accounts. These circumstances contributed to significant growth in non-maturing deposit account balances at the Corporation, and at depository financial institutions generally. Further, deposits from state and municipal entities, primarily in non-maturing, interest-bearing accounts, are a significant source of deposit funding for the Corporation, representing approximately 13% of total deposits at December 31, 2017. State and municipal customers frequently maintain large deposit account balances substantially in excess of the per depositor limit of FDIC insurance. Should interest rates continue to rise, customers, including state and municipal entities, may become more sensitive to interest rates when making

deposit decisions and considering alternative opportunities. This increased sensitivity to interest rates could cause customers to move funds into higher-yielding deposit accounts or into alternative investments. Movement of customer deposits into higher-yielding deposit accounts offered by the Corporation's bank subsidiaries, the need to offer higher interest rates on deposit accounts to retain customer deposits or the movement of customer deposits into alternative investments or deposits of other banks or non-bank providers could increase the Corporation's funding costs, reduce its net interest margin and/or create liquidity challenges.

Market conditions have been negatively impacted by disruptions in the liquidity markets in the past, and such disruptions or an adverse change in the Corporation's results of operations or financial condition could, in the future, have a negative impact on secondary sources of liquidity. If the Corporation is not able to continue to rely primarily on customer deposits to meet its liquidity and funding needs, continue to access secondary, non-deposit funding sources on favorable terms or otherwise fails to manage its liquidity effectively, the Corporation's ability to continue to grow may be constrained, and the Corporation's liquidity, operating margins, results of operations and financial condition may be materially adversely affected. See Item 7A. "Quantitative and Qualitative Disclosures About Market Risk-Interest Rate Risk, Asset/Liability Management and Liquidity."

LEGAL, COMPLIANCE AND REPUTATIONAL RISKS.

The Corporation and its bank subsidiaries are subject to extensive regulation and supervision and may be adversely affected by changes in laws and regulations or any failure to comply with laws and regulations.

Virtually every aspect of the Corporation's and its bank subsidiaries' operations is subject to extensive regulation and supervision by federal and state regulatory agencies, including the Federal Reserve Board, OCC, FDIC, CFPB, DOJ, UST, SEC, HUD, state attorneys general and state banking, financial services, securities and insurance regulators. Under this regulatory framework, regulatory agencies have broad authority in carrying out their supervisory, examination and enforcement responsibilities to address compliance with applicable laws and regulations, including laws and regulations relating to capital adequacy, asset quality, liquidity, risk management and financial accounting and reporting, as well as laws and regulations governing consumer protection, fair lending, privacy, information security and cybersecurity risk management, third-party vendor risk management, and AML and anti-terrorism laws, among other aspects of the Corporation's business. Failure to comply with these regulatory requirements, including inadvertent or unintentional violations, may result in the assessment of fines and penalties, or the commencement of further informal or formal regulatory enforcement actions against the Corporation or its bank subsidiaries. Other negative consequences can also result from such failures, including regulatory restrictions on the Corporation's activities, including restrictions on the Corporation's ability to grow through acquisition, reputational damage, restrictions on the ability of institutional investment managers to invest in the Corporation's securities, and increases in the Corporation's costs of doing business. The occurrence of one or more of these events may have a material adverse effect on the Corporation's business, financial condition and/or results of operations.

Compliance with banking and financial services statutes and regulations is also important to the Corporation's ability to engage in new activities or to expand upon existing activities. Regulators continue to scrutinize banks through longer and more intensive examinations. Federal and state banking agencies possess broad powers to take supervisory actions, as they deem appropriate. These supervisory actions may result in higher capital requirements, higher deposit insurance premiums and limitations on the Corporation's operations and expansion activities that could have a material adverse effect on its business and profitability. As noted below and as examples of such limitations, the regulatory enforcement orders to which the Corporation and three of its bank subsidiaries are subject impose certain restrictions on the expansion activities of the Corporation and those bank subsidiaries.

The Corporation intends to seek regulatory approval of the consolidation of our bank subsidiaries, which could result in significant implementation costs and impact our long-term compliance obligations.

The Corporation has six bank subsidiaries, and the Corporation and its subsidiaries are subject to regulation by a relatively large number of federal and state regulatory agencies. This corporate structure presents challenges, specifically, the need for compliance with different, and potentially inconsistent, regulatory requirements and expectations. The time, expense and internal and external resources associated with regulatory compliance continue to increase, and balancing the need to address regulatory changes and effectively manage overall non-interest expenses has become more challenging than it has been in the past. As a result, the Corporation's compliance obligations increase the Corporation's expense, require increasing amounts of management's attention and can be a disadvantage from a competitive standpoint with respect to non-regulated competitors and larger bank competitors with more extensive resources.

The Corporation has announced that it is developing plans to seek regulatory approval to begin the process of consolidating its six bank subsidiaries. This multi-year consolidation process is expected to eventually result in the Corporation conducting its core banking business through a single bank subsidiary, which would reduce the number of government agencies that regulate the Corporation's banking operations. The timing of the commencement of this consolidation process will depend significantly on

the Corporation and its bank subsidiaries making necessary progress in enhancing a largely centralized compliance program designed to comply with the requirements of the BSA, the Patriot Act and related anti-money laundering regulations (collectively, the "BSA/AML Requirements") and the corresponding requirements of the regulatory enforcement orders described below. There is no assurance that the regulatory approvals required for such consolidation can be obtained or that such consolidation would significantly reduce the time, expense and internal and external resources associated with regulatory compliance.

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

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

Nonetheless, as mentioned above, the Corporation and three of its bank subsidiaries are subject to regulatory enforcement orders issued during 2014 and 2015 by their respective Federal and state bank regulatory agencies relating to identified deficiencies in the Corporation's centralized BSA and anti-money laundering compliance program (the "BSA/AML Compliance Program"), which was designed to comply with the BSA/AML Requirements.

The regulatory enforcement orders, which are in the form of consent orders or orders to cease and desist issued upon consent (the "Consent Orders"), generally require, among other things, that the Corporation and the affected bank subsidiaries undertake a number of required actions to strengthen and enhance the BSA/AML Compliance Program, and, in some cases, conduct retrospective reviews of past account activity and transactions, as well as certain reports filed in accordance with the BSA/AML Requirements, to determine whether suspicious activity and certain transactions in currency were properly identified and reported in accordance with the BSA/AML Requirements.

In addition to requiring strengthening and enhancement of the BSA/AML Compliance Program, while the Consent Orders remain in effect, the Corporation is subject to certain restrictions on expansion activities, such as growth through acquisition or branching to supplement organic growth of the Corporation and the affected bank subsidiaries. Further, any failure to comply with the requirements of any of the Consent Orders involving the Corporation or those bank subsidiaries could result in further enforcement actions, the imposition of additional material restrictions on the activities of the Corporation or its bank subsidiaries, or the assessment of fines or penalties.

Additional expenses and investments have been incurred as the Corporation expanded its hiring of personnel and use of outside professionals, such as consulting and legal services, and made capital investments in operating systems to strengthen and support the BSA/AML Compliance Program, as well as the Corporation's broader compliance and risk management infrastructures. The expense and capital investment associated with all of these efforts, including those undertaken in connection with the Consent Orders, have had an adverse effect on the Corporation's results of operations in recent periods and could have a material adverse effect on the Corporation's results of operations in one or more future periods.

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

While the Corporation believes that it has made significant progress in improving its BSA/AML Compliance Program, there is no assurance as to when the Consent Orders will be terminated.

The Corporation's largest subsidiary, Fulton Bank, has total assets of more than \$10 billion and is subject to additional regulation and increased supervision.

The Dodd-Frank Act imposes additional regulatory requirements on institutions with \$10 billion or more in assets. The Corporation's largest bank subsidiary, Fulton Bank, has total assets of more than \$10 billion and, as of March 31, 2017, became subject to the following:

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

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

In addition, the Corporation's other bank subsidiaries also became subject to the supervision, examination and enforcement jurisdiction by the CFPB with respect to consumer financial protection laws. See Item 1. "Business-Supervision and Regulation."

The Dodd-Frank Act continues to have a significant impact on the Corporation's business and results of operations.

The Dodd-Frank Act has had a substantial impact on many aspects of the financial services industry. The Corporation has been impacted, and will likely continue to be impacted in the future, by the so-called Durbin Amendment to the Dodd-Frank Act, which reduced debit card interchange revenue of banks, and revised FDIC deposit insurance assessments. The Corporation has also been impacted by the Dodd-Frank Act in the areas of corporate governance, capital requirements, risk management, stress testing and regulation under federal consumer protection laws.

The Dodd-Frank Act established the CFPB, which was given rulemaking authority over most providers of consumer financial services in the U.S., examination and enforcement authority over the consumer operations of large banks, as well as interpretive authority with respect to numerous existing consumer financial services regulations. As an independent bureau funded by the Federal Reserve Board, the CFPB has imposed requirements more stringent than those imposed by the bank regulatory agencies that were previously responsible for consumer financial protection. The CFPB has also been directed to write and enforce rules identifying practices or acts that are unfair, deceptive or abusive in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service.

The CFPB has initiated enforcement actions against a variety of bank and non-bank market participants with respect to a number of consumer financial products and services that has resulted in those participants expending significant time, money and resources to adjust to the initiatives being pursued by the CFPB. These enforcement actions may serve as precedent for how the CFPB interprets and enforces consumer protection laws, including practices or acts that are deemed to be unfair, deceptive or abusive, with respect to all supervised institutions, which may result in the imposition of higher standards of compliance with such laws. In connection with such actions, the CFPB has developed a number of new enforcement theories and applications of federal consumer financial laws. Other federal financial regulatory agencies, including the OCC, as well as state attorneys general and state banking agencies and other state financial regulators also have been increasingly active in this area with respect to institutions over which they have jurisdiction. See Item 1. "Business-Supervision and Regulation."

Fulton Bank and the Corporation's other bank subsidiaries became, as of March 31, 2017, subject to supervision and examination by the CFPB for compliance with the CFPB's regulations and policies. The costs and limitations related to this additional regulatory regimen have yet to be fully determined, however they could result in material adverse effects on the Corporation's profitability.

The financial services industry, as well as the broader economy, may be subject to new legislation which could result in significant changes in banking and financial services regulation.

The U.S. Congress and state legislatures and federal and state regulatory agencies continually review banking and other laws, regulations and policies for possible changes. Changes in federal or state laws, regulations or governmental policies may affect the Corporation and its business. The effects of such changes are difficult to predict and may produce unintended consequences. New laws, regulations or changes in the regulatory environment could limit the types of financial services and products the Corporation may offer, alter demand for existing products and services, increase the ability of non-banks to offer competing financial services and products, increase compliance burdens, or otherwise adversely affect the Corporation's business, results of operations or financial condition.

It remains difficult to predict the legislative and regulatory changes that will result from the fact that both Houses of Congress have majority memberships from the same political party as the President. Both the President and senior members of Congress have advocated for significant reduction of financial services regulation, to include amendments to the Dodd-Frank Act and structural changes to the CFPB. In 2017, the UST, in response to an Executive Order issued by the President, released a report on the Administration's Core Principles for Regulation the United States Financial System. The report detailed several findings and recommendations, including but not limited to, that capital, liquidity and leverage rules should be simplified to promote the flow of credit, that consumer regulation and the structure and authority of the CFPB are in need of reform, that the regulatory burden

on community financial institutions should be eased, and that Congress should play a more significant role in overseeing the federal banking agencies to ensure that regulations are better-tailored, more efficient and more effective.

Although significant changes to existing laws, regulations and policies may be finalized by Congress and/or the federal banking agencies and the CFPB, it is difficult to predict with precision what changes, if any, will be implemented into law and when such changes may occur. Accordingly, the impact of any legislative or regulatory changes on the Corporation, our competitors and on the financial services industry as a whole cannot be determined at this time. In any event, the laws and regulations to which we are subject are constantly under review by Congress, federal regulatory agencies, and state authorities. These laws and regulations could be changed significantly in the future, which could affect our profitability, our ability to compete effectively, or the composition of the financial services industry in which we compete.

The financial services industry is experiencing leadership changes at the federal banking agencies, which may impact regulations and government policies applicable to us.

As a result of the change of Administration and the current composition and recent actions of Congress, it is possible that certain aspects of the existing banking and financial services regulatory framework, as amended by the Dodd-Frank Act, will be repealed or modified in the near-term. For example, the President, senior members of the Administration, and senior members of Congress have advocated for substantial changes to the regulations implementing the Dodd-Frank Act. The federal banking agencies are presently experiencing leadership changes which could impact the supervision, enforcement and rulemaking policies of such agencies. In 2017 and early 2018, Congress confirmed a new Chairman of the Federal Reserve Board, a new Comptroller of the Currency and a new Vice Chairman for Supervision at the Federal Reserve Board. In addition, the President nominated a new Chairwoman of the FDIC and the Director of the CFPB resigned and was replaced by an interim Director. Consistent with the views of the Administration and Congress, certain members of this new leadership group have advocated for a reduction in financial services regulation, supervision and enforcement. Moreover, the senior staffs of these agencies charged with carrying out agency policies and responsibilities have experienced significant turnover as a result of these changes. Consequently, certain new regulatory initiatives may be delayed or suspended and existing regulations may be re-evaluated, modified or repealed. At this time, however, the full impact of these and other pending leadership changes, as well as the potential impact to financial services regulation to result from such changes, is uncertain. It is also difficult to predict the impact that any legislative or regulatory changes will have on the Corporation, our competitors and on the financial services industry as a whole. Our results of operations also could be adversely affected by changes in the way in which existing statutes, regulations, and laws are interpreted or applied by courts and government agencies.

Changes in U.S. federal, state or local tax laws may negatively impact our financial performance.

We are subject to changes in tax law that could increase our effective tax rates. These law changes may be retroactive to previous periods and as a result could negatively affect our current and future financial performance. In December 2017, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law enacting the most significant changes to the U.S. Internal Revenue Code of 1986, as amended (the "Code"), in more than 30 years. The full impact of the Tax Act on the Corporation is subject to further evaluation and analysis, although it is likely to have both positive and negative effects on our financial performance. For example, the Tax Act reduces our Federal corporate income tax rate to 21% beginning in 2018, which will have a favorable impact on our earnings and capital generation abilities. However, the Tax Act also imposes limitations on our ability to take certain deductions, such as the deduction for FDIC deposit insurance premiums, which will partially offset the anticipated increase in net earnings from the lower tax rate. In addition, as a result of the lower corporate tax rate, we were required under GAAP to re-measure the value of our deferred tax assets and liabilities utilizing the lower tax rate during the fourth quarter of 2017, and, as a result, recorded a \$15.6 million charge to income tax expense. The ultimate impact of the Tax Act may differ from the foregoing description, possibly materially, due to changes in interpretations or in assumptions that we have made, guidance or regulations that may be promulgated, and other actions that we may take as a result of the Tax Act.

At this early stage, it is difficult to predict how the many changes made to the Code will affect the Corporation's business, its customers and the broader economy. For example, the Tax Act may affect the Corporation's customers in various ways that could have a corresponding effect on the Corporation and the economy as a whole, including in the following ways:

- The limitation of the ability of individual taxpayers to claim an itemized deduction for interest paid on qualifying home equity indebtedness may affect demand for, and utilization of, home equity-related credit. In addition, consumers seeking credit may look to alternative credit products, some of which might not be offered by the Corporation, or for which there may be significantly greater competition, or which expose the Corporation to greater credit or other risks.
- The reduction to the maximum amount of residential acquisition indebtedness as to which interest payments can be taken as an itemized deduction from \$1 million to \$750,000 may affect the demand for residential mortgage loans, particularly

in geographic areas characterized by relatively high housing costs. The reduction in the acquisition indebtedness limit might also have an impact on housing prices in those geographic areas.

- The significant increase in the standard deduction for individual taxpayers is expected to result in a reduction in the number of individual taxpayers that itemize deductions, including deductions for charitable contributions. It is unclear what, if any, impact this change will have on individual charitable giving. A reduction in charitable giving to charitable organizations that are customers of the Corporation could affect their ability to repay their loans.
- New limits on the maximum level of business interest that may be deducted as an expense in determining taxable income may affect the demand for loans the Corporation offers to businesses.
- The reduction in the maximum corporate tax rate from 35% to 21% may affect the demand for various types of tax-free financing if lenders increase the rates that are charged on those financings to maintain comparable taxable-equivalent yields. This could, in turn, lead to higher interest expense for borrowers of tax-free financing, which could affect their ability to repay those financings. Similarly, issuers of municipal debt securities held in the Corporation's investment portfolio could face higher interest expenses, which could affect their ability to make payments on those securities.

The foregoing description of the impact of the Tax Act and its impact on us should be read in conjunction with our Notes to Consolidated Financial Statements. Finally, a number of the changes to the Code are set to expire in future years. There is substantial uncertainty concerning whether those expiring provisions will be extended, or whether future legislation will further revise the Code.

Negative publicity could damage the Corporation's reputation and business.

Reputation risk, or the risk to the Corporation's earnings and capital from negative public opinion, is inherent in the Corporation's business. Negative public opinion could result from the Corporation's actual, alleged or perceived conduct in any number of activities, including lending practices, litigation, corporate governance, regulatory, compliance, mergers and acquisitions, and disclosure, sharing or inadequate protection of customer information, and from actions taken by government agencies and community organizations in response to that conduct. In addition, unfavorable public opinion regarding the broader financial services industry, or arising from the actions of individual financial institutions, can have an adverse effect on the Corporation's reputation. Because the Corporation conducts the majority of its businesses under the "Fulton" brand, negative public opinion about one line of business could affect the Corporation's other lines of businesses. Any of these or other events that impair the Corporation's reputation can affect the Corporation's ability to attract and retain customers and employees, and access sources of funding and capital, any of which could have materially adverse effect on the Corporation's results of operations and financial condition.

From time to time the Corporation and its subsidiaries may be the subject of litigation and governmental or administrative proceedings. Adverse outcomes of any such litigation or proceedings may have a material adverse impact on the Corporation's business and results of operations as well as its reputation.

Many aspects of the Corporation's business involve substantial risk of legal liability. From time to time, the Corporation and its subsidiaries have been named or threatened to be named as defendants in various lawsuits arising from its business activities (and in some cases from the activities of companies that were acquired). In addition, the Corporation and its bank subsidiaries are regularly the subject of governmental investigations and other forms of regulatory inquiry. For example, the Corporation is cooperating with the DOJ in an investigation regarding potential violations of the fair lending laws by Fulton Bank, Fulton Bank of New Jersey, The Columbia Bank and Lafayette Ambassador Bank due to potential lending discrimination on the basis of race and national origin. Like other large financial institutions, the Corporation is also subject to risk from potential employee misconduct, including non-compliance with policies and improper use or disclosure of confidential information. These matters could result in adverse judgments, settlements, fines, penalties, injunctions or other relief. Substantial legal liability or significant regulatory actions against us could materially adversely affect our business, financial condition or results of operations and/or cause significant reputational harm to our business. The Corporation establishes reserves for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. However, the Corporation may still incur legal costs for a matter, even if a reserve has not been established.

Currently, the Corporation and three of its bank subsidiaries are the subject of regulatory proceedings in the form of the Consent Orders. The Corporation can provide no assurance as to the outcome or resolution of legal or administrative actions, and such actions may result in judgments against us for significant damages or the imposition of regulatory restrictions on our operations. Resolution of these types of matters can be prolonged and costly, and the ultimate results or judgments are uncertain due to the inherent uncertainty in the outcomes of litigation and other proceedings.

The Corporation is subject to a variety of risks in connection with origination and sale of loans.

The Corporation originates residential mortgage loans and other loans, such as loans guaranteed, in part, by the U.S. Small Business Administration, all or portions of which are later sold in the secondary market to government sponsored enterprises or agencies, such as the Federal National Mortgage Association (Fannie Mae), and other non-government sponsored investors. In connection with such sales, the Corporation makes certain representations and warranties with respect to matters such as the underwriting, origination, documentation or other characteristics of the loans sold. The Corporation may be required to repurchase a loan, or to reimburse the purchaser of a loan for any related losses, if it is determined that the loan sold was in violation of representations or warranties made at the time of the sale, and, in some cases, if there is evidence of borrower fraud, in the event of early payment default by the borrower on the loan, or for other reasons. The Corporation maintains reserves for potential losses on certain loans sold, however, it is possible that losses incurred in connection with loan repurchases and reimbursement payments may be in excess of any applicable reserves, and the Corporation may be required to increase reserves and may sustain additional losses associated with such loan repurchases and reimbursement payments in the future, which could have a material adverse effect on the Corporation's financial condition or results of operations.

In addition, the sale of residential mortgage loans and other loans in the secondary market serves as a source of non-interest income and liquidity for the Corporation, and can reduce its exposure to risks arising from changes in interest rates. Efforts to reform government sponsored enterprises and agencies, changes in the types of, or standards for, loans purchases by government sponsored enterprises or agencies and other investors, or the Corporation's failure to maintain its status as an eligible seller of such loans may limit the Corporation's ability to sell these loans. The inability of the Corporation to continue to sell these loans could reduce the Corporation's non-interest income, limit the Corporation's ability to originate and fund these loans in the future, and make managing interest rate risk more challenging, any of which could have a material adverse effect on the Corporation's results of operations and financial condition.

STRATEGIC AND EXTERNAL RISKS.

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

The Corporation historically has followed a "super-community" banking strategy under which the Corporation has operated its bank subsidiaries autonomously to maximize the advantages of the community banking model in serving the needs of its customers. Reliance on this model has posed challenges to the Corporation's efforts to manage risk efficiently and effectively through a centralized risk management and compliance function. As a result of these challenges and a desire to refine its business strategy, the Corporation is in the process of transitioning to a business model that is primarily focused on alignment of services with the customer segments the Corporation serves and less oriented to geographic boundaries.

The transformation of the Corporation's business model, which is being implemented over a period of several years, may have some or all of the following unintended effects:

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

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

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

- In the current, prolonged low interest rate environment, the Corporation's net interest margin has been compressed, and it is possible that a net interest margin that is lower than historical levels could continue for some time. As a result, income growth will likely need to come from growth in the volume of earning assets, particularly loans, and an increase in non-interest income. However, customer demand and competition could make such income growth difficult to achieve;

- Operating expenses, particularly in the compliance and risk management areas, have been elevated, and such expenses may continue to increase in the future, as a result of Fulton Bank surpassing the \$10 billion in assets threshold; and
- Growth through acquisition to supplement organic growth is unlikely to occur while the Consent Orders referenced above are in place, due to an inability to obtain the required regulatory approvals.

To achieve profitable growth, the Corporation may pursue new lines of business or offer new products or services, all of which can involve significant costs, uncertainties and risks. Any new activity the Corporation pursues may require a significant investment of time and resources, and may not generate the anticipated return on that investment. In addition, the Corporation may not be able to effectively implement and manage any new activities. External factors, such as the need to comply with additional regulations, the availability, or introduction, of competitive alternatives in the market, and changes in customer preferences may also impact the successful implementation of any new activity. Any new activity could have a significant impact on the effectiveness of the Corporation's system of internal controls. If the Corporation is not able to adequately identify and manage the risks associated with new activities, the Corporation's business, results of operations and financial condition could be materially and adversely impacted.

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

There is significant competition among commercial banks in the market areas served by the Corporation. In addition, the Corporation also competes with other providers of financial services, such as savings and loan associations, credit unions, consumer finance companies, securities firms, insurance companies, commercial finance and leasing companies, the mutual funds industry, full service brokerage firms and discount brokerage firms, some of which are subject to less extensive regulation than the Corporation is with respect to the products and services they provide and have different cost structures. Some of the Corporation's competitors have greater resources, higher lending limits, lower cost of funds and may offer other services not offered by the Corporation. The Corporation also experiences competition from a variety of institutions outside its market areas. Some of these institutions conduct business primarily over the Internet and, as a result, may be able to realize certain cost savings and offer products and services at more favorable rates and with greater convenience to the customer. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. In addition, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as funds transfers, payment services, residential mortgage loans, consumer loans and wealth and investment management services.

Competition may adversely affect the rates the Corporation pays on deposits and charges on loans, and could result in the loss of fee income, as well as the loss of customer deposits and the income generated from those deposits, thereby potentially adversely affecting the Corporation's profitability and its ability to continue to grow. The Corporation's profitability and continued growth depends upon its continued ability to successfully compete in the market areas it serves. See Item 1. "Business-Competition."

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

In the past, the Corporation supplemented its internal growth with strategic acquisitions of banks, branches and other financial services companies. If the purchase price of an acquired company exceeds the fair value of the company's net assets, the excess is carried on the acquirer's balance sheet as goodwill. As of December 31, 2017, the Corporation had \$530.6 million of goodwill recorded on its balance sheet. The Corporation is required to evaluate goodwill for impairment at least annually. Write-downs of the amount of any impairment, if necessary, are to be charged to earnings in the period in which the impairment occurs. There can be no assurance that future evaluations of goodwill will not result in impairment charges.

Changes in accounting policies, standards, and interpretations could materially affect how we report our financial condition and results of operations.

The preparation of the Corporation's financial statements in accordance with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as revenues and expenses during the period. A summary of the accounting policies that the Corporation considers to be most important to the presentation of its financial condition and results of operations, because they require management's most difficult judgments as a result of the need to make estimates about the effects of matters that are inherently uncertain, including those related to the allowance for credit losses, goodwill, income taxes, and fair value measurements, is set forth in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies" and within "Note 1-Summary of Significant Accounting Policies," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data."

A variety of factors could affect the ultimate values of assets, liabilities, income and expenses recognized and reported in the Corporation's financial statements, and these ultimate values may differ materially from those determined based on management's estimates and assumptions. In addition, the Financial Accounting Standards Board ("FASB"), regulatory agencies, and other bodies that establish accounting standards from time to time change the financial accounting and reporting standards governing the preparation of the Corporation's financial statements. Further, those bodies that establish and interpret the accounting standards (such as the FASB, the Securities and Exchange Commission, and banking regulators) may change prior interpretations or positions regarding how these standards should be applied. These changes can be difficult to predict and can materially affect how the Corporation records and reports its financial condition and results of operations. For example, during 2016, the FASB issued a new accounting standard, Accounting Standards Update 2016-13, that will require the recognition of credit losses on loans and other financial assets based on an entity's current estimate of expected losses over the lifetime of each loan or other financial asset, referred to as the current expected credit loss ("CECL") model, as opposed to current accounting standards, which require recognition of losses on loans and other financial assets only when those losses are "probable." The Corporation's adoption of this accounting standard, which is required for interim and annual reporting periods beginning after December 15, 2019, could materially affect the Corporation's allowance for credit losses methodology, financial condition, capital levels and results of operations, including expenses the Corporation may incur in implementing this accounting standard. See "Note 1 - Summary of Significant Accounting Policies - Recently Issued Accounting Standards" in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data."

OPERATIONAL RISKS.

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

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

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

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

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

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

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

The Corporation's internal controls may be ineffective.

One critical component of the Corporation's risk management framework is its system of internal controls. Management regularly reviews and updates the Corporation's internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide reasonable, but not absolute, assurances that the objectives of the controls are met. Any failure or circumvention of the Corporation's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Corporation's business, results of operations, financial condition and reputation. See Item 9A. "Controls and Procedures."

Loss of, or failure to adequately safeguard, confidential or proprietary information may adversely affect the Corporation's operations, net income or reputation.

The Corporation's business is highly dependent on information systems and technology and the ability to collect, process, transmit and store significant amounts of confidential information regarding customers, employees and others on a daily basis. While the Corporation performs some of the functions required to operate its business directly, it also outsources significant business functions, such as processing customer transactions, maintenance of customer-facing websites, including its online banking function, and developing software for new products and services, among others. These relationships require the Corporation to allow third parties to access, store, process and transmit customer information. As a result, the Corporation may be subject to cyber security risks directly, as well as indirectly through the vendors to whom it outsources business functions. The increased use of smartphones, tablets and other mobile devices, as well as cloud computing, may also heighten these and other operational risks. Cyber threats could result in unauthorized access, loss or destruction of customer data, unavailability, degradation or denial of service, introduction of computer viruses and other adverse events, causing the Corporation to incur additional costs (such as repairing systems or adding new personnel or protection technologies). Cyber threats may also subject the Company to regulatory investigations, litigation or enforcement require the payment of regulatory fines or penalties or undertaking costly remediation efforts with respect to third parties affected by a cyber security incident, all or any of which could adversely affect the Corporation's business, financial condition or results of operations and damage its reputation.

The Corporation attempts to reduce its exposure to its vendors' cyber incidents by performing initial vendor due diligence that is updated periodically for critical vendors, negotiating service level standards with vendors, negotiating for indemnification from vendors for confidentiality and data breaches, and limiting third-party access to the least privileged level necessary to perform outsourced functions, among other things. The Corporation also uses monitoring and preventive controls to detect and respond to cyber threats to its own systems before they become significant. The Corporation regularly evaluates its systems and controls and implements upgrades as necessary. The additional cost to the Corporation of our cyber security monitoring and protection systems and controls includes the cost of hardware and software, third party technology providers, consulting and forensic testing firms, insurance premium costs and legal fees, in addition to the incremental cost of our personnel who focus a substantial portion of their responsibilities on cyber security.

There can be no assurance that the measures employed by the Corporation to combat direct or indirect cyber threats will be effective. In addition, because the methods of cyber attacks change frequently or, in some cases, are not recognized until launched, the Corporation may be unable to implement effective preventive control measures or proactively address these methods and the probability of a successful attack cannot be predicted. The Corporation's or a vendor's failure to promptly identify and counter a cyber attack may result in increased costs and consequences of a successful cyber attack. Although the Corporation maintains insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber risks, such insurance coverage may be inapplicable or otherwise insufficient to cover any or all losses. Further, a successful cyber security attack that results in a significant loss of customer data or compromises our ability to function would have a material adverse effect on our business, reputation, financial condition and results of operation.

Account data compromise events at large retailers, health insurers, a national consumer credit reporting agency and others in recent years have resulted in heightened legislative and regulatory focus on privacy, data protection and information security. New or revised laws and regulations may significantly impact the Corporation's current and planned privacy, data protection and information security-related practices, the collection, use, sharing, retention and safeguarding of consumer and employee information, and current or planned business activities. Compliance with current or future privacy, data protection and information security laws to which the Corporation is subject could result in higher compliance and technology costs and could restrict the Corporation's ability to provide certain products and services, which could materially and adversely affect the Corporation's profitability. The Corporation's failure to comply with privacy, data protection and information security laws could result in potentially significant regulatory and governmental investigations and/or actions, litigation, fines, sanctions and damage to the Corporation's reputation and its brand.

The Corporation continually encounters technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Corporation's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Corporation's operations. The costs of new technology, including personnel, can be high, in both absolute and relative terms. Many of the Corporation's financial institution competitors have substantially greater resources to invest in technological improvements. In addition, new payment, credit and investment and wealth management services developed and offered by non-bank or non-traditional competitors pose an increasing threat to the products and services traditionally provided by financial institutions like the Corporation. The Corporation may not be able to effectively implement new technology-driven products and services, be successful in marketing these products and services to its customers, or effectively deploy new technologies to improve the efficiency of its operations. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on the Corporation's business, financial condition and results of operations.

There can be no assurance, given the past pace of change and innovation that the Corporation's technology, either purchased or developed internally, will meet or continue to meet the needs of the Corporation and the needs of its customers.

In addition, advances in technology, as well as changing customer preferences favoring access to the Corporation's products and services through digital channels, could decrease the value of the Corporation's branch network and other assets. If customers increasingly choose to access the Corporation's products and services through digital channels, the Corporation may find it necessary to consolidate, close or sell branch locations or restructure its branch network. These actions could lead to losses on assets, expenses to reconfigure branches and the loss of customers in affected markets. As a result, the Corporation's business, financial condition or results of operations may be adversely affected.

The Corporation may not be able to attract and retain skilled people.

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

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

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

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

Capital planning has taken on more importance due to regulatory requirements and the Basel III capital standards.

Consistent with current regulatory guidance, the Corporation conducts an annual stress test using internal financial data and different economic scenarios provided by the Federal Reserve Board, and reports the results of the stress test to the Federal Reserve Board. The Corporation's board of directors and its senior management are required to consider the results of the annual stress test in the normal course of business, including as part of its capital planning process and the evaluation of the adequacy of its capital. The results of future stress testing processes may lead the Corporation to retain additional capital or alter the mix of its capital components. In addition, the implementation of certain regulations with regard to regulatory capital could disproportionately affect the Corporation's regulatory capital position relative to that of its competitors, including those who may not be subject to the same regulatory requirements.

The fully phased-in capital standards under the U.S. Basel III Capital Rules require banks to maintain more capital than the minimum levels required under former regulatory capital standards. The new minimum regulatory capital requirements began to apply to the Corporation on January 1, 2015. The required minimum capital conservation buffer began to be phased in incrementally on January 1, 2016 and will be fully phased in on January 1, 2019. The failure to meet the established capital requirements could result in the federal banking regulators placing limitations or conditions on the activities of the Corporation or its bank subsidiaries or restricting the commencement of new activities, and such failure could subject the Corporation or its bank subsidiaries to a variety of enforcement remedies, including limiting the ability of the Corporation or its bank subsidiaries to pay dividends, issuing a directive to increase capital and terminating FDIC deposit insurance. In addition, the failure to comply with the capital conservation buffer will result in restrictions on capital distributions and discretionary cash bonus payments to executive officers. As of December 31, 2017, the Corporation's current capital levels met the fully phased-in minimum capital requirements, including capital conservation buffers, as set forth in the U.S. Basel III Capital Rules. See Item 1. "Business-Supervision and Regulation-Capital Requirements."

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

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

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

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

Fitch, Inc., Moody's Investors Service, Inc. and DBRS, Inc. continuously evaluate the Corporation and its subsidiaries, and their ratings of the Corporation and its subsidiary's long-term and short-term debt are based on a number of factors, including financial strength, as well as factors not entirely within the Corporation's and its subsidiaries' control, such as conditions affecting the financial services industry generally. In light of these reviews and the continued focus on the financial services industry generally, the Corporation and its subsidiaries may not be able to maintain their current respective ratings. Ratings downgrades by any of these credit rating agencies could have a significant and immediate impact on the Corporation's funding and liquidity through cash obligations, reduced funding capacity and collateral triggers. A reduction in the Corporation's or its subsidiaries' credit ratings could also increase the Corporation's borrowing costs and limit its access to the capital markets.

Downgrades in the credit or financial strength ratings assigned to the counterparties with whom the Corporation transacts could create the perception that the Corporation's financial condition will be adversely impacted as a result of potential future defaults by such counterparties. Additionally, the Corporation could be adversely affected by a general, negative perception of financial institutions caused by the downgrade of other financial institutions. Accordingly, ratings downgrades for other financial institutions could affect the market price of the Corporation's stock and could limit access to or increase its cost of capital.

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

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

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table summarizes the Corporation's full-service branch properties, by subsidiary bank, as of December 31, 2017. Remote service facilities (mainly stand-alone automated teller machines) are excluded.

<u>Subsidiary Bank</u>	<u>Owned</u>	<u>Leased</u>	<u>Total Branches</u>
Fulton Bank, N.A.	44	68	112
Fulton Bank of New Jersey	35	29	64
The Columbia Bank.....	6	25	31
Lafayette Ambassador Bank.....	4	17	21
FNB Bank, N.A.	5	1	6
Swineford National Bank	5	2	7
<i>Total</i>	<u>99</u>	<u>142</u>	<u>241</u>

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

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

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

Item 3. Legal Proceedings

The information presented in the "Legal Proceedings" section of "Note 17 - Commitment and Contingencies" in the Notes to Consolidated Financial Statements is incorporated herein by reference.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Common Stock

As of December 31, 2017, the Corporation had 175.2 million shares of \$2.50 par value common stock outstanding held by approximately 32,000 holders of record. The closing price per share of the Corporation's common stock on February 15, 2018 was \$18.60. The common stock of the Corporation is traded on the Global Select Market of The NASDAQ Stock Market under the symbol FULT.

The following table presents the quarterly high and low prices of the Corporation's stock and per share cash dividends declared for each of the quarterly periods in 2017 and 2016:

	Price Range		Per Share Dividend
	High	Low	
<u>2017</u>			
First Quarter.....	\$ 19.75	\$ 16.90	\$ 0.11
Second Quarter.....	19.90	16.85	0.11
Third Quarter.....	19.50	16.45	0.11
Fourth Quarter.....	19.45	17.30	0.14
<u>2016</u>			
First Quarter.....	\$ 13.74	\$ 11.48	\$ 0.09
Second Quarter.....	14.35	12.66	0.10
Third Quarter.....	14.86	12.91	0.10
Fourth Quarter.....	19.45	14.04	0.12

Restrictions on the Payments of Dividends

The Corporation is a separate and distinct legal entity from its banking and nonbanking subsidiaries, and depends on the payment of dividends from its subsidiaries, principally its banking subsidiaries, for substantially all of its revenues. As a result, the Corporation's ability to make dividend payments on its common stock depends primarily on certain federal and state regulatory considerations and the receipt of dividends and other distributions from its subsidiaries. There are various regulatory and prudential supervisory restrictions, which may change from time to time, that impact the ability of its banking subsidiaries to pay dividends or make other payments to the Corporation. For additional information regarding the regulatory restrictions applicable to the Corporation and its subsidiaries, see "Supervision and Regulation," in Item 1. "Business;" Item 1A. "Risk Factors - The Corporation is a holding company and relies on dividends and other payments from its subsidiaries for substantially all of its revenue and its ability to make dividend payments, distributions and other payments," under "Risks Related to an Investment in the Corporation's Securities;" and "Note 11 - Regulatory Matters," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data."

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information about options outstanding under the Corporation's Amended and Restated Equity and Cash Incentive Compensation Plan ("Employee Equity Plan") and the number of securities remaining available for future issuance under the Employee Equity Plan, the 2011 Directors' Equity Participation Plan and the Employee Stock Purchase Plan as of December 31, 2017:

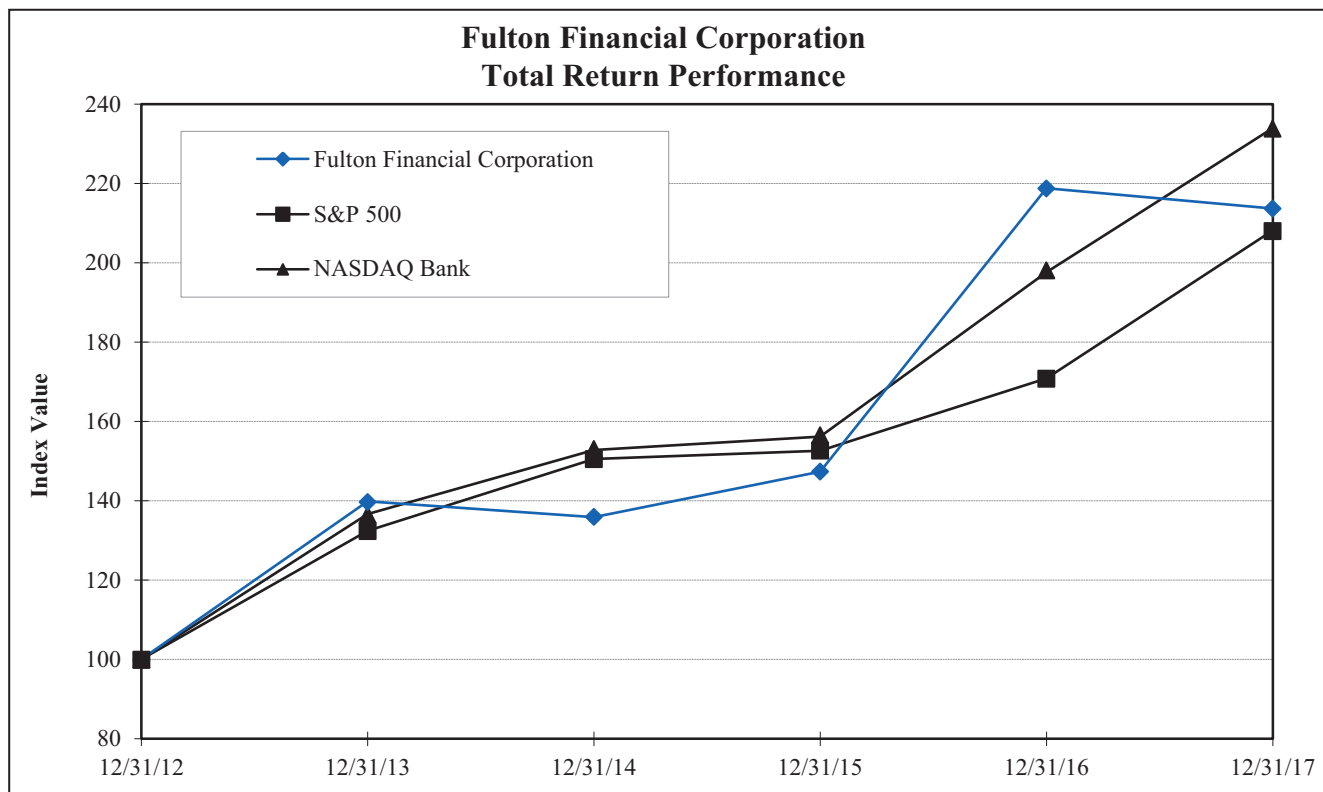
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	Weighted-average exercise price of outstanding options, warrants and rights (2)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column) (3)
Equity compensation plans approved by security holders.....	2,185,139	\$ 10.66	13,307,915
Equity compensation plans not approved by security holders...	—	—	—
Total	2,185,139	\$ 10.66	13,307,915

- (1) The number of securities to be issued upon exercise of outstanding options, warrants and rights includes 840,358 performance-based restricted stock units ("PSUs"), which is the target number of PSUs that are payable under the Employee Equity Plan, though no shares will be issued until achievement of applicable performance goals, and includes 466,579 time-vested restricted stock units ("RSUs") granted under the Employee Equity Plan.
- (2) The weighted-average exercise price of outstanding options, warrants and rights does not take into account outstanding PSUs and RSUs granted under the Employee Equity Plan.
- (3) Consists of 11,076,430 shares that may be awarded under the Employee Equity Plan, 359,761 shares that may be awarded under the 2011 Directors' Equity Participation Plan and 1,871,724 of shares that may be purchased under the Employee Stock Purchase Plan. Excludes accrued purchase rights under the Employee Stock Purchase Plan as of December 31, 2017 as the number of shares to be purchased is indeterminable until the time shares are issued.

Performance Graph

The following graph shows cumulative total shareholder return (i.e., price change, plus reinvestment of dividends) on the common stock of Fulton Financial Corporation during the five-year period ended December 31, 2017, compared with (1) the NASDAQ Bank Index and (2) the Standard and Poor's 500 index ("S&P 500"). The graph is not indicative of future price performance.

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



Index	Year Ending December 31					
	2012	2013	2014	2015	2016	2017
Fulton Financial Corporation.....	\$ 100.00	\$ 139.83	\$ 135.84	\$ 147.31	\$ 218.78	\$ 213.66
S&P 500.....	\$ 100.00	\$ 132.39	\$ 150.51	\$ 152.59	\$ 170.84	\$ 208.14
NASDAQ Bank Index	\$ 100.00	\$ 136.62	\$ 152.77	\$ 156.15	\$ 197.60	\$ 233.94

Item 6. Selected Financial Data**5-YEAR CONSOLIDATED SUMMARY OF FINANCIAL RESULTS**

(dollars in thousands, except per-share data)

	2017	2016	2015	2014	2013
<u>SUMMARY OF INCOME</u>					
Interest income.....	\$ 668,866	\$ 603,100	\$ 583,789	\$ 596,078	\$ 609,689
Interest expense	93,502	82,328	83,795	81,211	82,495
Net interest income	575,364	520,772	499,994	514,867	527,194
Provision for credit losses.....	23,305	13,182	2,250	12,500	40,500
Investment securities gains, net.....	9,071	2,550	9,066	2,041	8,004
Non-interest income, excluding investment securities gains.....	198,903	187,628	172,773	165,338	179,660
Loss on redemption of trust preferred securities	—	—	5,626	—	—
Non-interest expense, excluding loss on redemption of trust preferred securities	525,579	489,519	474,534	459,246	461,433
Income before income taxes	234,454	208,249	199,423	210,500	212,925
Income taxes	62,701	46,624	49,921	52,606	51,085
Net income.....	\$ 171,753	\$ 161,625	\$ 149,502	\$ 157,894	\$ 161,840
<u>PER COMMON SHARE</u>					
Net income (basic).....	\$ 0.98	\$ 0.93	\$ 0.85	\$ 0.85	\$ 0.84
Net income (diluted).....	0.98	0.93	0.85	0.84	0.83
Cash dividends.....	0.47	0.41	0.38	0.34	0.32
<u>RATIOS</u>					
Return on average assets.....	0.88%	0.88%	0.86%	0.93%	0.96%
Return on average equity	7.83	7.69	7.38	7.62	7.88
Return on average tangible equity ⁽¹⁾	10.33	10.30	10.01	10.31	10.76
Net interest margin	3.28	3.18	3.21	3.39	3.50
Efficiency ratio ⁽¹⁾	64.5	67.2	68.6	65.7	63.4
Dividend payout ratio	48.0	44.1	44.7	40.5	38.6
<u>PERIOD-END BALANCES</u>					
Total assets.....	\$ 20,036,905	\$ 18,944,247	\$ 17,914,718	\$ 17,124,767	\$ 16,934,634
Investment securities	2,547,956	2,559,227	2,484,773	2,323,371	2,568,434
Loans, net of unearned income.....	15,768,247	14,699,272	13,838,602	13,111,716	12,782,220
Deposits	15,797,532	15,012,864	14,132,317	13,367,506	12,491,186
Short-term borrowings.....	617,524	541,317	497,663	329,719	1,258,629
FHLB advances and long-term debt.....	1,038,346	929,403	949,542	1,139,413	883,584
Shareholders' equity	2,229,857	2,121,115	2,041,894	1,996,665	2,063,187
<u>AVERAGE BALANCES</u>					
Total assets.....	\$ 19,580,367	\$ 18,371,173	\$ 17,406,843	\$ 16,959,507	\$ 16,811,337
Investment securities	2,547,914	2,469,564	2,347,810	2,485,292	2,715,546
Loans, net of unearned income.....	15,236,612	14,128,064	13,330,973	12,885,180	12,578,524
Deposits	15,481,221	14,585,545	13,747,113	12,867,663	12,473,184
Short-term borrowings.....	533,564	395,727	323,772	832,839	1,196,323
FHLB advances and long-term debt.....	1,034,444	959,142	1,023,972	965,601	889,461
Shareholders' equity	2,193,863	2,100,634	2,026,883	2,071,640	2,053,821

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

Supplemental Reporting of Non-GAAP Based Financial Measures

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

	2017	2016	2015	2014	2013
(in thousands, except per share data and percentages)					
Return on average tangible equity					
Net income	\$ 171,753	\$ 161,625	\$ 149,502	\$ 157,894	\$ 161,840
Plus: Intangible amortization, net of tax	—	—	161	818	1,584
Numerator	<u>\$ 171,753</u>	<u>\$ 161,625</u>	<u>\$ 149,663</u>	<u>\$ 158,712</u>	<u>\$ 163,424</u>
Average common shareholders' equity.....	\$ 2,193,863	\$ 2,100,634	\$ 2,026,883	\$ 2,071,640	\$ 2,053,821
Less: Average goodwill and intangible assets	(531,556)	(531,556)	(531,618)	(532,425)	(534,431)
Average tangible shareholders' equity (denominator)	<u>\$ 1,662,307</u>	<u>\$ 1,569,078</u>	<u>\$ 1,495,265</u>	<u>\$ 1,539,215</u>	<u>\$ 1,519,390</u>
Return on average tangible equity	<u>10.33%</u>	<u>10.30%</u>	<u>10.01%</u>	<u>10.31%</u>	<u>10.76%</u>
Efficiency ratio					
Non-interest expense	\$ 525,579	\$ 489,519	\$ 480,160	\$ 459,246	\$ 461,433
Less: Amortization of tax credit investments	(11,028)	—	—	—	—
Less: Intangible amortization	—	—	(247)	(1,259)	(2,438)
Less: Loss on redemption of trust preferred securities ...	—	—	(5,626)	—	—
Numerator	<u>\$ 514,551</u>	<u>\$ 489,519</u>	<u>\$ 474,287</u>	<u>\$ 457,987</u>	<u>\$ 458,995</u>
Net interest income (fully taxable equivalent) ⁽¹⁾	\$ 598,565	\$ 541,271	\$ 518,464	\$ 532,322	\$ 544,474
Plus: Total Non-interest income	207,974	190,178	181,839	167,379	187,664
Less: Investment securities gains, net	(9,071)	(2,550)	(9,066)	(2,041)	(8,004)
Denominator	<u>\$ 797,468</u>	<u>\$ 728,899</u>	<u>\$ 691,237</u>	<u>\$ 697,660</u>	<u>\$ 724,134</u>
Efficiency ratio	<u>64.5%</u>	<u>67.2%</u>	<u>68.6%</u>	<u>65.6%</u>	<u>63.4%</u>
Non-performing assets to tangible equity and allowance for credit losses					
Non-performing assets (numerator)	\$ 144,582	\$ 144,453	\$ 155,913	\$ 150,504	\$ 169,329
Tangible equity	\$ 1,698,301	\$ 1,589,559	\$ 1,510,338	\$ 1,464,862	\$ 1,530,111
Plus: Allowance for credit losses	176,084	171,325	171,412	185,931	204,917
Tangible equity and allowance for credit losses (denominator)	<u>\$ 1,874,385</u>	<u>\$ 1,760,884</u>	<u>\$ 1,681,750</u>	<u>\$ 1,650,793</u>	<u>\$ 1,735,028</u>
Non-performing assets to tangible common shareholders' equity and allowance for credit losses	<u>7.71%</u>	<u>8.20%</u>	<u>9.27%</u>	<u>9.12%</u>	<u>9.76%</u>

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

FORWARD-LOOKING STATEMENTS

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

These forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties, some of which are beyond the Corporation's control and ability to predict, that could cause actual results to differ materially from those expressed in the forward-looking statements. The Corporation undertakes no obligation, other than as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Many factors could affect future financial results including, without limitation:

- the impact of adverse conditions in the economy and capital markets on the performance of the Corporation's loan portfolio and demand for the Corporation's products and services;
- increases in non-performing assets, which may require the Corporation to increase the allowance for credit losses, charge off loans and incur elevated collection and carrying costs related to such non-performing assets;
- investment securities gains and losses, including other-than-temporary declines in the value of securities which may result in charges to earnings;
- the effects of market interest rates, and the relative balances of interest rate-sensitive assets to interest rate-sensitive liabilities, on net interest margin and net interest income;
- the effects of changes in interest rates on demand for the Corporation's products and services;
- the effects of changes in interest rates or disruptions in liquidity markets on the Corporation's sources of funding;
- the effects of the extensive level of regulation and supervision to which the Corporation and its bank subsidiaries are subject;
- the effects of the increasing amounts of time and expense associated with regulatory compliance and risk management;
- the potential for negative consequences from regulatory violations, investigations and examinations including potential supervisory actions and the assessment of fines and penalties;
- the additional time, expense and investment required to comply with, and the restrictions on potential growth and investment activities resulting from, the existing enforcement orders applicable to the Corporation and three of its bank subsidiaries by federal and state bank regulatory agencies requiring improvement in compliance functions and other remedial actions, or any future enforcement orders;
- the continuing impact of the Dodd-Frank Act on the Corporation's business and results of operations;
- the effects of, and uncertainty surrounding, new legislation, changes in regulation and government policy, and changes in leadership at the federal banking agencies, which could result in significant changes in banking and financial services regulation;
- the effects of actions by the federal government, including those of the Federal Reserve Board and other government agencies, that impact money supply and market interest rates;
- the effects of changes in U.S. federal, state or local tax laws;
- the effects of negative publicity on the Corporation's reputation;
- the effects of adverse outcomes in litigation and governmental or administrative proceedings;
- the potential to incur losses in connection with repurchase and indemnification payments related to sold loans;
- the Corporation's ability to obtain regulatory approvals to consolidate its bank subsidiaries and achieve intended reductions in the time, expense and resources associated with regulatory compliance from such consolidations;
- the Corporation's ability to successfully transform its business model;
- the Corporation's ability to achieve its growth plans;
- the effects of competition on deposit rates and growth, loan rates and growth and net interest margin;
- the Corporation's ability to manage the level of non-interest expenses, including salaries and employee benefits expenses, operating risk losses and goodwill impairment;

- the effects of changes in accounting policies, standards, and interpretations on the Corporation's financial condition and results of operations;
- the impact of operational risks, including the risk of human error, inadequate or failed internal processes and systems, computer and telecommunications systems failures, faulty or incomplete data and an inadequate risk management framework;
- the impact of failures of third parties upon which the Corporation relies to perform in accordance with contractual arrangements;
- the failure or circumvention of the Corporation's system of internal controls;
- the loss of, or failure to safeguard, confidential or proprietary information;
- the Corporation's failure to identify and to address cyber-security risks, including data breaches and cyber attacks;
- the Corporation's ability to keep pace with technological changes;
- the Corporation's ability to attract and retain talented personnel;
- capital and liquidity strategies, including the Corporation's ability to comply with applicable capital and liquidity requirements, and the Corporation's ability to generate capital internally or raise capital on favorable terms;
- the Corporation's reliance on its subsidiaries for substantially all of its revenues and its ability to pay dividends or other distributions; and
- the effects of any downgrade in the Corporation's credit ratings on its borrowing costs or access to capital markets.

OVERVIEW

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

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

	2017	2016
Net income (in thousands)	\$ 171,753	\$ 161,625
Diluted net income per share	\$ 0.98	\$ 0.93
Return on average assets.....	0.88%	0.88%
Return on average equity	7.83%	7.69%
Return on average tangible equity ⁽¹⁾	10.33%	10.30%
Net interest margin ⁽²⁾	3.28%	3.18%
Efficiency ratio ⁽¹⁾	64.5%	67.2%
Non-performing assets to total assets	0.72%	0.76%
Annualized net charge-offs to average loans	0.12%	0.09%

- (1) Ratio represents a financial measure derived by methods other than Generally Accepted Accounting Principles ("GAAP"). See reconciliation of this non-GAAP financial measure to the most directly comparable GAAP measure under the heading, "Supplemental Reporting of Non-GAAP Based Financial Measures," in Item 6. Selected Financial Data.
- (2) Presented on an FTE basis, using a 35% Federal tax rate and statutory interest expense disallowances. See also the "Net Interest Income" section of Management's Discussion.

Following is a summary of the financial highlights for the year ended December 31, 2017:

- *Net Income Per Share Growth* - Diluted net income per share increased \$0.05, or 5.4%, to \$0.98 per diluted share, compared to \$0.93 in 2016. This increase was due to an increase in net income of \$10.1 million, or 6.3%, partially offset by a \$1.5 million, or 0.9%, increase in weighted average diluted shares outstanding in comparison to 2016. The increase in net income was driven by a \$54.6 million, or 10.5%, increase in net interest income and a \$17.8 million, or 9.4%, increase in non-interest income, including a \$6.5 million increase in investment securities gains, which were offset by a \$10.1 million increase in the provision for credit losses, a \$36.1 million, or 7.4%, increase in non-interest expense and a \$15.6 million income tax expense charge arising from tax reform legislation enacted late in the fourth quarter, as further discussed below.

- Net Interest Income Growth - The \$54.6 million increase in net interest income resulted from growth in interest-earning assets and the impact of a 10 basis point increase in the net interest margin, reflecting the impact of multiple rate increases by the Federal Reserve Bank (FRB) in 2016 and 2017.
 - Net Interest Margin - For the year ended December 31, 2017, the net interest margin increased 10 basis points, or 3.1%, in comparison to 2016, driven by a 13 basis point increase in yields on interest-earning assets, partially offset by a 3 basis point increase in the cost of funds.
 - Loan Growth - Average loans increased \$1.1 billion, or 7.8%, in comparison to 2016, with notable increases in commercial and residential mortgages, commercial - industrial, financial and agricultural, and construction loans. The Corporation's loan growth occurred throughout all of its geographic markets.
 - Deposit Growth - Average deposits increased \$895.7 million, or 6.1%, in comparison to 2016. The increase was the result of growth in demand and savings accounts, partially offset by a decrease in time deposits. At December 31, 2017, the loan-to-deposit ratio was to 99.8%, as compared to 97.9% at December 31, 2016.
- Provision for credit losses - The provision for credit losses increased \$10.1 million to \$23.3 million for the year ended December 31, 2017, primarily driven by growth in the loan portfolio and an increase in the reserve for unfunded lending commitments.
- Non-Interest Income - Non-interest income, excluding securities gains, increased \$11.3 million, or 6.0%, in comparison to 2016, primarily driven by a \$5.1 million net gain recognized on the settlement of litigation, and increases in investment management and trust services income, Small Business Administration ("SBA") lending income, debit and credit card income and merchant fees.
- Investment Securities Gains - Investment securities gains totaled \$9.1 million in comparison to \$2.6 million in 2016. Gains on the sales of financial institution common stocks of \$13.6 million were partially offset by approximately \$4.5 million of losses on debt securities sales as a result of repositioning the investment portfolio.
- Non-Interest Expense - Non-interest expense increased \$36.1 million, or 7.4%, in comparison to 2016, driven largely by the amortization of tax credit investments, higher salaries and employee benefits expense, state taxes, other outside services and the write-off of certain accumulated capital expenditures related to technology initiatives in commercial banking.
- Income Taxes - Income tax expense for 2017 resulted in an effective tax rate ("ETR") of 26.7%, as compared to 22.4% for 2016. Included in 2017 income tax expense was a charge of \$15.6 million, or 6.7%, of income before income taxes. This amount reflects an estimated reduction in the value of the net deferred tax asset as a result of the U.S. corporate income tax rate decrease included in the Tax Cuts and Jobs Act of 2017 ("Tax Act"). Absent the impact of the rate reduction, income tax expense for 2017 would have been approximately \$47.1 million, or 20.1%, of income before income taxes. The decrease in the ETR, absent the \$15.6 million charge, from 2016 to 2017, was related to increases in tax credit investments and related net tax credits and the impact of the adoption of the Financial Accounting Standards Board ("FASB") Accounting Standard Update ("ASU") 2016-09, Improvements to Employee Share-based Payments Accounting, in the first quarter of 2017. See "Note 1 - Summary of Significant Accounting Policies," in the Notes to the Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data."

CRITICAL ACCOUNTING POLICIES

The following is a summary of those accounting policies that the Corporation considers to be most important to the presentation of its financial condition and results of operations, as they require management's most difficult judgments as a result of the need to make estimates about the effects of matters that are inherently uncertain. See additional information regarding these critical accounting policies in "Note 1 - Summary of Significant Accounting Policies," in the Notes to the Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data."

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

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

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

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

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

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

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

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

- **Proper measurement of allowance needs for pools of loans evaluated for impairment under FASB ASC Subtopic 450-20.** For loan loss allocation purposes, loans are segmented into pools with similar characteristics. These pools are established by general loan type, or "portfolio segments," as presented in the table under the heading, "Loans, net of unearned income," within "Note 4 - Loans and Allowance for Credit Losses," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data." Certain portfolio segments are further disaggregated and evaluated collectively for impairment based on "class segments," which are largely based on the type of collateral underlying each loan. For commercial loans, class segments include loans secured by collateral and unsecured loans. Construction loan class segments include loans secured by commercial real estate, loans to commercial borrowers secured by residential real estate and loans to individuals secured by residential real estate. Consumer loan class segments are based on collateral types and include direct consumer installment loans and indirect automobile loans.

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

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

- ***Overall assessment of the risk profile of the loan portfolio.*** The allocation of the allowance for credit losses is reviewed to evaluate its appropriateness in relation to the overall risk profile of the loan portfolio. The Corporation considers risk factors such as: local and national economic conditions; trends in delinquencies and non-accrual loans; the diversity of borrower industry types; and the composition of the portfolio by loan type. Prior to 2017, the Corporation maintained an unallocated allowance for credit losses for factors and conditions that exist at the balance sheet date, but are not specifically identifiable, and to recognize the inherent imprecision in estimating and measuring loss exposure. In 2017, enhancements were made to allow for the impact of these factors and conditions to be quantified in the allowance allocation process. Accordingly, an unallocated allowance for credit losses is no longer necessary.

For additional details related to the allowance for credit losses, see "Note 4 - Loans and Allowance for Credit Losses," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data."

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

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

For additional details related to the annual goodwill impairment test, see "Note 6 - Goodwill and Intangible Assets," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data."

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

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

On a periodic basis, the Corporation evaluates its income tax positions based on tax laws, regulations and financial reporting considerations, and records adjustments as appropriate. Recognition and measurement of tax positions is based upon management's evaluations of current taxing authorities' examinations of the Corporation's tax returns, recent positions taken by the taxing authorities on similar transactions and the overall tax environment.

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

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

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

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

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

For additional details see "Note 18 - Fair Value Measurements," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data" for the disclosures required by FASB ASC Topic 820.

New Accounting Standards

For a description of new accounting standards issued, but not yet adopted by the Corporation, see "New Accounting Standards," in "Note 1 - Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data."

RESULTS OF OPERATIONS

Net Interest Income

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

The following table provides a comparative average balance sheet and net interest income analysis for 2017 compared to 2016 and 2015. Interest income and yields are presented on an FTE basis, using a 35% federal tax rate and statutory interest expense disallowances. The discussion following this table is based on these tax-equivalent amounts.

	2017			2016			2015		
	Average Balance	Interest ⁽¹⁾	Yield/Rate	Average Balance	Interest ⁽¹⁾	Yield/Rate	Average Balance	Interest ⁽¹⁾	Yield/Rate
(dollars in thousands)									
ASSETS									
Interest-earning assets:									
Loans, net of unearned income ⁽²⁾	\$15,236,612	\$ 620,803	4.07%	\$14,128,064	\$ 558,472	3.95%	\$13,330,973	\$ 537,979	4.04%
Taxable investment securities ⁽³⁾	2,132,426	47,029	2.21	2,128,497	44,975	2.11	2,093,829	45,279	2.16
Tax-exempt investment securities ⁽³⁾ ..	407,157	17,794	4.37	327,098	14,865	4.54	230,633	12,120	5.26
Equity securities ⁽³⁾	8,331	500	6.00	13,969	780	5.58	23,348	1,295	5.54
Total investment securities	2,547,914	65,323	2.56	2,469,564	60,620	2.45	2,347,810	58,694	2.50
Loans held for sale	20,008	876	4.38	19,697	728	3.70	19,937	801	4.02
Other interest-earning assets	451,015	5,066	1.12	407,471	3,779	0.93	447,354	4,785	1.07
Total interest-earning assets	18,255,549	692,068	3.79	17,024,796	623,599	3.66	16,146,074	602,259	3.73
Noninterest-earning assets:									
Cash and due from banks	108,523			104,772			105,359		
Premises and equipment	219,960			227,047			226,436		
Other assets ⁽³⁾	1,168,759			1,179,437			1,103,427		
Less: Allowance for loan losses	(172,424)			(164,879)			(174,453)		
Total Assets	\$19,580,367			\$18,371,173			\$17,406,843		
LIABILITIES AND EQUITY									
Interest-bearing liabilities:									
Demand deposits	\$ 3,831,865	\$ 12,976	0.34%	\$ 3,552,886	\$ 6,654	0.19%	\$ 3,255,192	\$ 4,299	0.13%
Savings deposits	4,468,205	13,477	0.30	4,054,970	7,981	0.20	3,677,079	5,435	0.15
Brokered deposits	49,126	613	1.25	—	—	—	—	—	—
Time deposits	2,721,724	30,726	1.13	2,825,722	30,058	1.06	2,988,648	30,748	1.03
Total interest-bearing deposits	11,070,920	57,792	0.52	10,433,578	44,693	0.43	9,920,919	40,482	0.41
Short-term borrowings	533,564	2,779	0.52	395,727	855	0.21	323,772	372	0.11
Long-term debt	1,034,444	32,932	3.18	959,142	36,780	3.83	1,023,972	42,941	4.19
Total interest-bearing liabilities	12,638,928	93,503	0.74	11,788,447	82,328	0.70	11,268,663	83,795	0.74
Noninterest-bearing liabilities:									
Demand deposits	4,410,301			4,151,967			3,826,194		
Other	337,275			330,125			285,103		
Total Liabilities	17,386,504			16,270,539			15,379,960		
Shareholders' equity	2,193,863			2,100,634			2,026,883		
Total Liabilities and Shareholders' Equity	\$19,580,367			\$18,371,173			\$17,406,843		
Net interest income/net interest margin (FTE)		598,565	3.28%		541,271	3.18%		518,464	3.21%
Tax equivalent adjustment		(23,201)			(20,499)			(18,470)	
Net interest income		\$ 575,364			\$ 520,772			\$ 499,994	

(1) Includes dividends earned on equity securities.

(2) Includes non-performing loans.

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

Note: The weighted average interest rate on total average interest-bearing liabilities and average non-interest bearing demand deposits ("cost of funds") was 0.55%, 0.52% and 0.56% for the years ended December 31, 2017, 2016 and 2015 respectively.

The following table summarizes the changes in FTE interest income and expense resulting from changes in average balances (volumes) and changes in rates:

	2017 vs. 2016			2016 vs. 2015		
	Increase (decrease) due to change in			Increase (decrease) due to change in		
	Volume	Rate	Net	Volume	Rate	Net
	(in thousands)					
Interest income on:						
Loans and leases.....	\$ 44,822	\$ 17,509	\$ 62,331	\$ 31,676	\$ (11,183)	\$ 20,493
Taxable investment securities	83	1,971	2,054	743	(1,047)	(304)
Tax-exempt investment securities.....	3,268	(339)	2,929	4,551	(1,806)	2,745
Equity securities.....	(309)	29	(280)	(524)	10	(514)
Loans held for sale	12	136	148	(10)	(63)	(73)
Other interest-earning assets	433	854	1,287	(404)	(603)	(1,007)
Total interest income.....	<u>\$ 48,309</u>	<u>\$ 20,160</u>	<u>\$ 68,469</u>	<u>\$ 36,032</u>	<u>\$ (14,692)</u>	<u>\$ 21,340</u>
Interest expense on:						
Demand deposits	\$ 562	\$ 5,760	\$ 6,322	\$ 423	\$ 1,932	\$ 2,355
Savings deposits	884	4,612	5,496	603	1,943	2,546
Brokered deposits.....	613	—	613	—	—	—
Time deposits	(781)	1,449	668	(1,711)	1,021	(690)
Short-term borrowings	379	1,545	1,924	106	377	483
Long-term debt.....	1,732	(5,580)	(3,848)	(2,620)	(3,541)	(6,161)
Total interest expense.....	<u>\$ 3,389</u>	<u>\$ 7,786</u>	<u>\$ 11,175</u>	<u>\$ (3,199)</u>	<u>\$ 1,732</u>	<u>\$ (1,467)</u>

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

Comparison of 2017 to 2016

FTE net interest income increased \$57.3 million, or 10.6%, to \$598.6 million in 2017. Net interest margin increased 10 basis points to 3.28% in 2017 from 3.18% in 2016.

As summarized above, FTE interest income increased \$48.3 million as the result of a \$1.2 billion, or 7.2%, increase in average interest-earning assets, primarily loans. The 13 basis point increase in the yield on interest-earning assets resulted in a \$20.2 million increase in FTE interest income. The yield on the loan portfolio increased 12 basis points, to 4.07%, largely due to the 25 basis point increases in the federal funds rate that occurred in each of December 2016 and March and June 2017.

Interest expense increased \$11.2 million, with a 4 basis point increase in the rate on average interest-bearing liabilities, contributing \$7.8 million, to this increase. The increase in the cost of interest-bearing liabilities reflects a 9 basis point increase in the cost of interest-bearing deposits primarily due to promotional campaigns and increasing interest rates for deposit balances for which the interest rate is linked to an index, which was partially offset by lower long-term borrowing costs due to debt refinancings in 2017 and prior years. In addition, the \$850.5 million, or 7.2%, increase in average interest-bearing liabilities accounted for \$3.4 million of the increase in interest expense.

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

	2017		2016		Increase (Decrease) in Balance	
	Balance	Yield	Balance	Yield	\$	%
	(dollars in thousands)					
Real estate - commercial mortgage	\$ 6,161,731	4.04%	\$ 5,636,696	3.98%	\$ 525,035	9.3%
Commercial - industrial, financial and agricultural.	4,236,810	4.01	4,080,854	3.78	155,956	3.8
Real estate - residential mortgage.....	1,779,270	3.80	1,464,744	3.77	314,526	21.5
Real estate - home equity	1,582,705	4.38	1,651,112	4.08	(68,407)	(4.1)
Real estate - construction.....	921,879	4.08	824,182	3.79	97,697	11.9
Consumer.....	304,162	4.99	276,792	5.36	27,370	9.9
Leasing and other	250,055	5.10	193,684	5.83	56,371	29.1
<i>Total</i>	\$ 15,236,612	4.07%	\$14,128,064	3.95%	\$1,108,548	7.8%

Average loans increased \$1.1 billion, or 7.8%, which contributed \$44.8 million to the increase in FTE interest income. In addition, the average yield on the loan portfolio increased 12 basis points, contributing \$17.5 million to the increase in FTE interest income. The increase in average yields on loans was driven by the repricing of existing variable and adjustable rate loans as a result of increases in the prime rate and the London Interbank Offered Rate ("LIBOR"), which are the indexes used to determine the interest rates on many of the loans in the Corporation's portfolio.

The increase in average loans resulted from growth in the commercial mortgage and residential mortgage portfolios, as well as the commercial loan, construction and leasing portfolios. The \$525.0 million, or 9.3%, growth in commercial mortgages occurred in both owner-occupied and investment property types and was realized in all geographic markets, but largely in Pennsylvania. The \$314.5 million, or 21.5%, increase in residential mortgages was also realized across all geographic markets, with the most significant increases occurring in Maryland, Virginia and Pennsylvania. This growth was, in part, related to new product offerings and marketing efforts focused on specific customer segments, including loans to low- to moderate-income and minority borrowers, and loans to borrowers located in low- to moderate-income and majority-minority geographies. The \$156.0 million, or 3.8%, increase in commercial loans was spread across a broad range of industries and concentrated in Pennsylvania.

Average investment securities increased \$78.4 million, or 3.2%, in comparison to 2016, which contributed \$3.0 million to the increase in FTE interest income. The average yield on investment securities increased 11 basis points, contributing \$1.7 million to the increase in FTE interest income. Other interest-earning assets increased \$43.5 million, or 10.7%, and the yield increased 19 basis points in comparison to 2016. Combined, these increases contributed \$1.3 million to the increase FTE interest income.

Interest-bearing deposits contributed \$13.1 million to the increase in interest expense, increasing \$637.3 million, or 6.1%, in comparison to 2016 showing a 15 and 10 basis point increase, respectively, in the rate on average interest-bearing demand and savings deposits. These increases contributed \$6.3 million and \$5.5 million, respectively, to the increase in interest expense.

The average cost of interest-bearing deposits increased 9 basis points to 0.52% in 2017 from 0.43% in 2016, due to increases in the rates on all types of interest-bearing deposits.

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

	2017		2016		Increase (Decrease) in Balance	
	Balance	Rate	Balance	Rate	\$	%
(dollars in thousands)						
Noninterest-bearing demand	\$ 4,410,301	—%	\$ 4,151,967	—%	\$ 258,334	6.2%
Interest-bearing demand	3,831,865	0.34	3,552,886	0.19	278,979	7.9
Savings and money market accounts	4,468,205	0.30	4,054,970	0.20	413,235	10.2
<i>Total demand and savings</i>	12,710,371	0.12	11,759,823	0.12	950,548	8.1
Brokered deposits	49,126	1.25	—	—	49,126	N/M
Time deposits	2,721,724	1.13	2,825,722	1.06	(103,998)	(3.7)
<i>Total deposits</i>	\$ 15,481,221	0.37%	\$ 14,585,545	0.31%	\$ 895,676	6.1%

N/M - Not meaningful

The \$950.5 million, or 8.1%, increase in average total demand and savings account balances was primarily due to a \$549.9 million, or 10.1%, increase in personal account balances, a \$242.8 million, or 5.7%, increase in business account balances, and a \$147.7 million, or 7.4%, increase in state and municipal account balances.

During the third quarter of 2017, the Corporation began accepting deposits under an agreement with a non-bank third party pursuant to which excess cash in the accounts of customers of the third party is swept on a collective basis, as frequently as every business day, by the third party, into omnibus deposit accounts maintained by one of the Corporation's subsidiary banks. Under the agreement with the third party, generally, no more than \$100 million of excess cash in accounts of customers of the third party may be swept into the omnibus deposit accounts. The average balance in the omnibus accounts was \$49.1 million in 2017 and is shown as "brokered deposits" in the above table. This source of customer funding is considered to be both geographically diverse and relatively stable, with balances in the omnibus deposit accounts bearing interest at a rate based on the federal funds rate.

Total average short-term borrowings and long-term debt increased \$213.1 million, or 15.7%, while the total average cost of these funds decreased 50 basis points to 2.28%. The net effect of these offsetting changes was a \$1.9 million decrease in interest expense. The increase in average balances reflects the need for additional funding to support average loan growth as increases in average deposits were somewhat lower.

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

	2017		2016		Increase in Balance	
	Balance	Rate	Balance	Rate	\$	%
(dollars in thousands)						
Short-term borrowings:						
Customer repurchase agreements	\$ 188,769	0.12%	\$ 184,978	0.11%	\$ 3,791	2.0%
Customer short-term promissory notes	108,649	0.31	72,224	0.03	36,425	50.4
<i>Total short-term customer funding</i>	297,418	0.19	257,202	0.09	40,216	15.6
Federal funds purchased	163,102	0.92	127,604	0.45	35,498	27.8
Short-term FHLB advances ⁽¹⁾	73,044	0.94	10,921	0.43	62,123	N/M
<i>Total short-term borrowings</i>	533,564	0.52	395,727	0.21	137,837	34.8
Long-term debt:						
FHLB Advances	640,737	2.31	597,211	3.12	43,526	7.3
Other long-term debt	393,707	4.61	361,931	5.01	31,776	8.8
<i>Total long-term debt</i>	1,034,444	3.18	959,142	3.83	75,302	7.9
<i>Total</i>	\$ 1,568,008	2.28%	\$ 1,354,869	2.78%	\$ 213,139	15.7%

N/M - Not meaningful

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

Total average short-term borrowings increased \$137.8 million, or 34.8%, due to an increase in average short-term FHLB advances, customer short-term promissory notes and federal funds purchased. The cost of average short-term borrowings increased 31 basis points to 0.52% in 2017, largely due to the FRB rate increases.

Average other long-term debt increased \$31.8 million due mainly to the issuance of \$125.0 million of senior notes in March 2017, partially offset by the repayment of \$100.0 million of 10-year subordinated notes, which matured on May 1, 2017. The 65 basis point, or 17.0%, decrease in the average rate on long-term debt was the result of the interest rate differential on the senior notes and subordinated notes, and \$200 million of FHLB advances that were refinanced in December of 2016, which reduced the weighted average rate on these advances from 4.03% to 2.40%.

Comparison of 2016 to 2015

FTE net interest income increased \$22.8 million, or 4.4%, to \$541.3 million in 2016. Net interest margin decreased 3 basis points, to 3.18% in 2016 from 3.21% in 2015.

As summarized above, FTE interest income increased \$36.0 million as the result of an \$878.7 million, or 5.4%, increase in average interest-earning assets. This increase was partially offset by a \$14.7 million decrease resulting from a 7 basis point decline in average yields on interest earning assets.

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

	2016		2015		Increase (Decrease) in Balance	
	Balance	Yield	Balance	Yield	\$	%
	(dollars in thousands)					
Real estate - commercial mortgage	\$ 5,636,696	3.98%	\$ 5,246,054	4.13%	\$ 390,642	7.4%
Commercial - industrial, financial and agricultural.	4,080,854	3.78	3,882,998	3.80	197,856	5.1
Real estate - home equity	1,651,112	4.08	1,700,851	4.10	(49,739)	(2.9)
Real estate - residential mortgage.....	1,464,744	3.77	1,371,321	3.81	93,423	6.8
Real estate - construction.....	824,182	3.79	726,914	3.88	97,268	13.4
Consumer.....	276,792	5.36	265,688	5.57	11,104	4.2
Leasing and other	193,684	5.83	137,147	6.76	56,537	41.2
<i>Total</i>	\$ 14,128,064	3.95%	\$ 13,330,973	4.04%	\$ 797,091	6.0%

Average loans increased \$797.1 million, or 6.0%, which contributed \$31.7 million to the increase in FTE interest income. This increase was partially offset by an \$11.2 million decrease in FTE interest income as a result of a 9 basis point decline in the average yield on the loan portfolio. The increase in average loans was driven largely by growth in the commercial mortgage, commercial loan, construction, residential mortgage and leasing portfolios. The commercial mortgage growth was realized in all geographic markets, but largely in Pennsylvania. The decrease in average yields on loans was attributable to repayments of higher-yielding loans, refinancing activity at lower rates, and new loan production at rates lower than the overall portfolio yield.

Average investment securities increased \$121.8 million, or 5.2%, in comparison to 2015. The average yield on investment securities decreased 5 basis points to 2.45% in 2016 from 2.50% in 2015. Other interest earning assets decreased \$39.9 million, or 8.9%.

Interest expense decreased \$1.5 million, or 1.8%, to \$82.3 million in 2016 from \$83.8 million in 2015, despite an increase in total average interest-bearing liabilities of \$519.8 million, or 4.6%, compared to 2015. The impact of the increase in average balances of interest-bearing liabilities was more than offset by a 4 basis point decrease in the average cost of these interest-bearing liabilities. This decrease resulted from a shift in funding mix that was more concentrated in lower-cost deposits and short-term borrowings, as well as the impact of long-term debt refinancing activities.

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

	2016		2015		Increase (Decrease) in Balance	
	Balance	Rate	Balance	Rate	\$	%
(dollars in thousands)						
Noninterest-bearing demand	\$ 4,151,967	—%	\$ 3,826,194	—%	\$ 325,773	8.5%
Interest-bearing demand	3,552,886	0.19	3,255,192	0.13	297,694	9.1
Savings and money market accounts.....	4,054,970	0.20	3,677,079	0.15	377,891	10.3
<i>Total demand and savings</i>	<u>11,759,823</u>	<u>0.12</u>	<u>10,758,465</u>	<u>0.09</u>	<u>1,001,358</u>	<u>9.3</u>
Time deposits.....	2,825,722	1.06	2,988,648	1.03	(162,926)	(5.5)
<i>Total deposits</i>	<u>\$ 14,585,545</u>	<u>0.31%</u>	<u>\$ 13,747,113</u>	<u>0.29%</u>	<u>\$ 838,432</u>	<u>6.1%</u>

The \$1.0 billion, or 9.3%, increase in average total demand and savings account balances was primarily due to a \$500.8 million, or 10.1%, increase in personal account balances, a \$342.1 million, or 8.7%, increase in business account balances, and a \$159.4 million, or 8.6%, increase in state and municipal account balances.

The average cost of interest-bearing deposits increased 2 basis points to 0.43% in 2016 from 0.41% in 2015, primarily due to an increase in the rates on all interest-bearing deposits.

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

	2016		2015		Increase (Decrease) in Balance	
	Balance	Rate	Balance	Rate	\$	%
(dollars in thousands)						
Short-term borrowings:						
Customer repurchase agreements.....	\$ 184,978	0.11%	\$ 161,093	0.10%	\$ 23,885	14.8%
Customer short-term promissory notes	72,224	0.03	81,530	0.02	(9,306)	(11.4)
<i>Total short-term customer funding</i>	<u>257,202</u>	<u>0.09</u>	<u>242,623</u>	<u>0.07</u>	<u>14,579</u>	<u>6.0</u>
Federal funds purchased.....	127,604	0.45	65,779	0.21	61,825	94.0
Short-term FHLB advances ⁽¹⁾	10,921	0.43	15,370	0.33	(4,449)	(28.9)
<i>Total short-term borrowings</i>	<u>395,727</u>	<u>0.21</u>	<u>323,772</u>	<u>0.11</u>	<u>71,955</u>	<u>22.2</u>
Long-term debt:						
FHLB Advances	597,211	3.12	622,978	3.43	(25,767)	(4.1)
Other long-term debt.....	361,931	5.01	400,994	5.38	(39,063)	(9.7)
<i>Total long-term debt</i>	<u>959,142</u>	<u>3.83</u>	<u>1,023,972</u>	<u>4.19</u>	<u>(64,830)</u>	<u>(6.3)</u>
<i>Total</i>	<u>\$ 1,354,869</u>	<u>2.78%</u>	<u>\$ 1,347,744</u>	<u>3.21%</u>	<u>\$ 7,125</u>	<u>0.5%</u>

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

Total average short-term borrowings increased \$72.0 million, or 22.2%, primarily due to an increase in Federal funds purchased. Total long-term debt decreased \$64.8 million as the result of maturing FHLB advances and the maturity of \$100.0 million of subordinated debt in April 2015.

The cost of average short-term borrowings increased 10 basis points, to 0.21% in 2016, largely due to the FRB increasing the federal funds interest rate by 25 basis points in December 2015. The cost of average long-term debt decreased 36 basis points, to 3.83% in 2016, as the result of certain refinancing activities for FHLB advances and other long-term debt.

In June 2015, the Corporation issued \$150 million of subordinated debt at an effective rate of 4.69%. The proceeds of this issuance were used to redeem \$150 million of trust preferred securities, with an effective rate of 6.52%, in July 2015.

In the third quarter of 2015, the Corporation executed two transactions to restructure its long-term FHLB advances. First, \$200 million of FHLB advances, with a weighted average rate of 4.45% which matured in the first quarter of 2017, were refinanced with new advances maturing from September 2019 to December 2020, at a weighted average rate of 2.95%. This transaction reduced interest expense on a quarterly basis by approximately \$750,000, beginning in the fourth quarter of 2015. Second, forward

agreements were executed to refinance an additional \$200 million of FHLB advances which matured in December 2016. These new advances have maturity dates from March 2021 to December 2021 and will reduce the weighted average rate on these advances from 4.03% to 2.40% and decreased interest expense on a quarterly basis by approximately \$800,000 beginning in the first quarter of 2017.

Provision for Credit Losses

The provision for credit losses was \$23.3 million in 2017, an increase of \$10.1 million in comparison to 2016. The provision for credit losses for 2016 was \$13.2 million, an increase of \$10.9 million in comparison to 2015. The increase in the provision for credit losses was primarily driven by loan growth and a \$3.5 million increase in loss allocations for off balance sheet exposures.

The provision for credit losses is recognized as an expense in the consolidated statements of income and is the amount necessary to adjust the allowance for credit losses to its appropriate balance, as determined through the Corporation's allowance methodology. The Corporation determines the appropriate level of the allowance for credit losses based on many quantitative and qualitative factors, including, but not limited to: the size and composition of the loan portfolio, changes in risk ratings, changes in collateral values, delinquency levels, historical losses and economic conditions. See further discussion of the Corporation's allowance methodology under the heading "Critical Accounting Policies" above. For details related to the Corporation's allowance and provision for credit losses, see "Provision and Allowance for Credit Losses," under "Financial Condition" below.

Non-Interest Income and Expense

Comparison of 2017 to 2016

Non-Interest Income

The following table presents the components of non-interest income for 2017 and 2016:

	2017	2016	Increase (Decrease)	
			\$	%
(dollars in thousands)				
<u>Other service charges and fees:</u>				
Merchant fees	16,845	16,136	709	4.4
Debit card income.....	11,905	11,236	669	6.0
Commercial loan interest rate swap fees	11,694	11,560	134	1.2
Letter of credit fees.....	4,403	4,504	(101)	(2.2)
Foreign exchange income.....	1,759	1,555	204	13.1
Other	6,253	6,482	(229)	(3.5)
<i>Total other service charges and fees</i>	52,859	51,473	1,386	2.7
<u>Service charges on deposit accounts:</u>				
Overdraft fees	\$ 22,569	\$ 22,175	\$ 394	1.8%
Cash management fees	14,444	14,183	261	1.8
Other	13,993	14,988	(995)	(6.6)
<i>Total service charges on deposit accounts</i>	51,006	51,346	(340)	(0.7)
Investment management and trust services	49,249	45,270	3,979	8.8
<u>Mortgage banking income:</u>				
Gain on sales of mortgage loans.....	13,036	15,685	(2,649)	(16.9)
Mortgage servicing income	6,892	3,730	3,162	84.8
<i>Total mortgage banking income</i>	19,928	19,415	513	2.6
<u>Other non-interest income:</u>				
Credit card income	10,920	10,252	668	6.5
SBA lending income.....	3,511	2,425	1,086	N/M
Other income	11,430	7,447	3,983	53.5
<i>Total other income</i>	25,861	20,124	5,737	28.5
<i>Total, excluding investment securities gains</i>	198,903	187,628	11,275	6.0
Investment securities gains.....	9,071	2,550	6,521	N/M
<i>Total.....</i>	\$ 207,974	\$ 190,178	\$ 17,796	9.4%

N/M - Not meaningful

Excluding investment securities gains, non-interest income increased \$11.3 million, or 6.0%, for the year ended December 31, 2017, as compared to the same period in 2016. In the fourth quarter of 2017, the Corporation recognized a net gain of \$5.1 million upon the settlement of litigation, included in other income in the table above. Excluding this settlement, non-interest income increased \$6.2 million, or 3.3%, in 2017.

Other service charges and fees increased \$1.4 million, or 2.7%, mainly due to increases in merchant fees and debit card income, as transaction volumes increased.

Investment management and trust services income increased \$4.0 million, or 8.8%, with growth in both trust and brokerage income, due to overall market performance and an increase in assets under management to \$7.1 billion at December 31, 2017, compared to \$6.2 billion at December 31, 2016.

Gains on sales of mortgage loans decreased \$2.6 million, or 16.9%, compared to the same period in 2016, as both volumes and pricing spreads decreased. Mortgage servicing income increased \$3.2 million compared to the same period in 2016 due mainly to a \$1.3 million reduction to the MSR valuation allowance in 2017, as compared to net increases to the valuation allowance of \$1.3 million in 2016, recorded as reductions to servicing income. Excluding the impact of the MSR valuation allowance adjustments

in both periods, mortgage servicing income increased \$560,000, or 11.1%, reflecting lower MSR amortization due to slowing prepayments. For more information, see Note 7, "Mortgage Servicing Rights," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data."

Investment securities gains totaled \$9.1 million, in comparison to \$2.6 million in 2016, as the Corporation recognized gains on the sales of financial institution common stocks. These gains were partially offset by approximately \$4.5 million of pre-tax net losses as result of the Corporation repositioning its investment portfolio through the sale of certain debt securities during 2017. See Note 4, "Investment Securities," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data" for additional details.

Non-Interest Expense

The following table presents the components of non-interest expense for 2017 and 2016:

	2017	2016	Increase	
			\$	%
			(dollars in thousands)	
Salaries and employee benefits.....	\$ 290,130	\$ 283,353	\$ 6,777	2.4%
Net occupancy expense.....	49,708	47,611	2,097	4.4
Data processing and software	38,735	36,919	1,816	4.9
Other outside services.....	27,501	23,883	3,618	15.1
Equipment expense.....	12,935	12,788	147	1.1
Professional fees	12,688	11,004	1,684	15.3
FDIC insurance.....	11,049	9,767	1,282	13.1
Amortization of tax credit investments.....	11,028	—	11,028	N/M
State taxes	10,051	6,405	3,646	56.9
Marketing.....	8,034	7,044	990	14.1
Operating risk loss	4,342	2,815	1,527	54.2
Other	49,378	47,930	1,448	3.0
<i>Total</i>	<u>\$ 525,579</u>	<u>\$ 489,519</u>	<u>\$ 36,060</u>	<u>7.4%</u>

N/M - Not meaningful

The \$6.8 million, or 2.4%, increase in salaries and employee benefits during the year ended December 31, 2017, in comparison to the same period during 2016, primarily resulted from a \$7.5 million, or 3.2%, increase in salaries, resulting from annual merit increases and an increase in staffing levels. The average number of full-time equivalent employees increased 2.3%, to 3,569, in 2017, as compared to 3,490 in 2016. These increases were partially offset by decreases in incentive compensation.

The \$2.1 million, or 4.4%, increase in net occupancy expense was primarily driven by increases in rent expense, property tax expense and other occupancy expenses.

The \$1.8 million, or 4.9%, increase in data processing and software resulted from higher transaction volumes, contractual increases in third-party service provider costs and the implementation of additional systems.

Other outside services increased \$3.6 million, or 15.1%, largely due to consulting services related to pre-bank consolidation efforts, technology initiatives and continued investments in commercial banking technology initiatives.

Professional fees consist of legal and audit fees. Increases were realized mainly in legal fees in 2017 as a result of various legal proceedings, including those discussed in Note 17 "Commitments and Contingencies" in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data."

FDIC insurance expense increased \$1.3 million, or 13.1%, reflecting the Corporation's largest banking subsidiary exceeding \$10 billion in assets and becoming subject to the higher premium assessments applicable to institutions of that size, and balance sheet growth.

As a result of changes in the types of tax credit investments and related accounting requirements, amortization expense for certain types of tax credit investments, totaling \$11.0 million, is now classified in non-interest expense, rather than income taxes.

State taxes increased \$3.6 million, or 56.9%, due to legislated increases in the Pennsylvania bank shares tax rate and certain sales tax liabilities.

Marketing expense increased \$990,000, or 14.1%, compared to the same period in 2016, due to an increase in the number of marketing promotions. In 2017, many of these promotions were focused on deposit generation.

The \$1.4 million increase in other expense was primarily driven by the \$3.4 million write-off of certain accumulated capital expenditures related to in-process technology initiatives in commercial banking due to a strategic shift to an alternative solution. This compares to \$1.8 million of property write-downs in 2016 related to a branch closure and the reconfiguration of a building as part of a long-term facilities plan.

Comparison of 2016 to 2015

Non-Interest Income

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

	2016	2015	Increase (Decrease)	
			\$	%
(dollars in thousands)				
<u>Other service charges and fees:</u>				
Merchant fees	16,136	15,037	1,099	7.3
Commercial loan interest rate swap fees.....	11,560	5,518	6,042	109.5
Debit card income	11,236	10,748	488	4.5
Letter of credit fees	4,504	4,809	(305)	(6.3)
Foreign currency processing income	1,555	1,436	119	8.3
Other.....	6,482	6,444	38	0.6
<i>Total other service charges and fees</i>	<i>51,473</i>	<i>43,992</i>	<i>7,481</i>	<i>17.0</i>
<u>Service charges on deposit accounts:</u>				
Overdraft fees.....	\$ 22,175	\$ 21,500	\$ 675	3.1%
Cash management fees.....	14,183	13,342	841	6.3
Other.....	14,988	15,255	(267)	(1.8)
<i>Total service charges on deposit accounts.....</i>	<i>51,346</i>	<i>50,097</i>	<i>1,249</i>	<i>2.5</i>
Investment management and trust services.....	45,270	44,056	1,214	2.8
<u>Mortgage banking income:</u>				
Gain on sales of mortgage loans	15,685	13,264	2,421	18.3
Mortgage servicing income.....	3,730	4,944	(1,214)	(24.6)
<i>Total mortgage banking income.....</i>	<i>19,415</i>	<i>18,208</i>	<i>1,207</i>	<i>6.6</i>
<u>Other non-interest income:</u>				
Credit card income	10,252	9,638	614	6.4
SBA lending income	2,425	100	2,325	N/M
Other income.....	7,447	6,682	765	11.4
<i>Total other income</i>	<i>20,124</i>	<i>16,420</i>	<i>3,704</i>	<i>22.6</i>
<i>Total, excluding investment securities gains</i>	<i>187,628</i>	<i>172,773</i>	<i>14,855</i>	<i>8.6</i>
Investment securities gains	2,550	9,066	(6,516)	(71.9)
<i>Total.....</i>	<i>\$ 190,178</i>	<i>\$ 181,839</i>	<i>\$ 8,339</i>	<i>4.6%</i>

N/M - Not meaningful

The \$675,000, or 3.1%, increase in overdraft fee income during the year ended December 31, 2016, in comparison to the same period in 2015, consisted of a \$461,000 increase in fees assessed on personal accounts and a \$214,000 increase in fees assessed on commercial accounts, due to higher volumes. Cash management fees increased \$841,000, or 6.3%, compared to 2015 due to higher transaction volumes and fee increases implemented in 2016.

The \$1.1 million, or 7.3%, increase in merchant fee income, the \$488,000, or 4.5%, increase in debit card income and the \$614,000, or 6.4%, increase in credit card income were all due to increases in the volumes of transactions in comparison to 2015.

The \$6.0 million increase in commercial loan interest rate swap fees was due to growth in commercial loans and the attractiveness of interest rate swaps in the current rate environment, whereby borrowers executed swaps to lock in fixed rates, while the Corporation continues to earn a floating rate. See "Note 10 - Derivative Financial Instruments," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data" for additional details.

The \$1.2 million, or 2.8%, increase in investment management and trust services income reflected a \$1.6 million, or 6.4%, increase in trust commissions and money market income, partially offset by a \$355,000, or 1.8%, decrease in brokerage fees. The increase in trust commission income was driven by a 9.3% increase in assets under management, as well as improvements in market values of existing assets.

Gains on sales of mortgage loans increased \$2.4 million, or 18.3%, due to a 23.7% increase in pricing spreads compared to the prior year, partially offset by a \$43.3 million, or 4.4%, decrease in new loan volumes. Mortgage servicing income decreased \$1.2 million, or 24.6%, mainly due to a \$1.3 million net valuation allowance recognized in 2016. See "Note 7 - Mortgage Servicing Rights," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data" for additional details regarding the impairment charge.

SBA lending income increased \$1.8 million compared to 2015. Other income increased \$1.3 million, or 20.2%, due mainly to an increase in the cash surrender value of insurance contracts on directors and employees.

Gains on sales of investment securities decreased \$6.5 million compared to 2015. See "Note 3 - Investment Securities," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data" for additional details.

Non-Interest Expense

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

	2016	2015	Increase (Decrease)	
			\$	%
	(dollars in thousands)			
Salaries and employee benefits.....	\$ 283,353	\$ 260,832	\$ 22,521	8.6%
Net occupancy expense.....	47,611	47,777	(166)	(0.3)
Other outside services.....	23,883	27,785	(3,902)	(14.0)
Data processing and software	36,919	34,640	2,279	6.6
Equipment expense.....	12,788	14,514	(1,726)	(11.9)
FDIC insurance.....	9,767	11,470	(1,703)	(14.8)
Professional fees.....	11,004	11,244	(240)	(2.1)
Marketing.....	7,044	7,324	(280)	(3.8)
Loss on redemption of trust preferred securities	—	5,626	(5,626)	N/M
Other	57,150	58,948	(1,798)	(3.1)
<i>Total</i>	<u>\$ 489,519</u>	<u>\$ 480,160</u>	<u>\$ 9,359</u>	<u>1.9%</u>

N/M - Not meaningful

The \$22.5 million, or 8.6%, increase in salaries and employee benefits during the year ended December 31, 2016 was primarily driven by an \$18.8 million, or 8.6%, increase in salaries, resulting from higher average salaries per full-time equivalent employee, normal merit increases and an increase in incentive compensation. The average number of full-time equivalent employees increased to 3,490 for the year ended December 31, 2016, compared to 3,460 for the year ended December 31, 2015. Benefits expenses increased \$3.7 million, or 8.9%, due to an increase in health care expense, employer contributions to the Corporation's 401(k) retirement plan, defined benefit plan expense, employee education and other employee benefits.

The \$3.9 million, or 14.0%, decrease in other outside services in comparison to 2015 was due to lower expenses associated with the Corporation's BSA/AML compliance program remediation efforts, and lower costs for information technology and human resources initiatives.

The \$2.2 million, or 14.6%, increase in software resulted from investments in technology, which are reflected in higher amortization, as well as increases in maintenance costs.

Equipment expense decreased \$1.7 million, or 11.9%, primarily due to lower depreciation expense, as certain assets became fully depreciated. FDIC insurance expense decreased \$1.7 million, or 14.8%, due to a reduction in the assessment rate beginning in the third quarter of 2016. Other real estate owned and repossession expense decreased \$1.7 million, or 46.9%, when compared to 2015, due to lower holding costs and an increase in net gains on sales. This expense category can experience volatility from period to period based on the timing of foreclosures and sales of properties and payments of expenses.

In July 2015, the Corporation redeemed \$150.0 million of TruPS. In connection with this redemption, a loss of \$5.6 million was recognized as a component of non-interest expense with no comparable expense in 2016.

Other non-interest expense increased \$1.5 million mainly as a result of \$1.8 million of property write downs related to a branch closure and the reconfiguration of a building as part of a long-term facilities plan.

Income Taxes

On December 22, 2017, the President signed the Tax Act. The Tax Act, among other things; lowers the U.S. corporate income tax rate from a top rate of 35% to a flat rate of 21%, limits the deductibility of FDIC insurance premiums, and eliminates the exception under prior law that permitted publicly held corporations to deduct compensation paid to certain executive officers in excess of \$1 million if that compensation was performance based. Based on the Corporation's projections for 2018, it anticipates the new limitations on the deductibility of FDIC insurance premiums and certain compensation paid to the Corporation's executive officers will have an immaterial impact on its effective tax rate.

Income taxes for the year ended December 31, 2017 totaled \$62.7 million, an increase of \$16.1 million, or 34.5%, from 2016. This increase was primarily a result of recording in the fourth quarter of 2017 a charge of \$15.6 million for the re-measurement of the net deferred tax asset due to the reduction of the U.S. corporate income tax rate as a result of the passage of the Tax Act. This increase in income tax was partially offset by increases in tax credit investments and related net tax credits and the adoption of the FASB ASU 2016-09, "Improvements to Employee Share-based Payments Accounting," in the first quarter of 2017. The Corporation's ETR was 26.7% for the year ended December 31, 2017, as compared to 22.4% in 2016 and 25.0% in 2015. Absent the \$15.6 million charge, the ETR would have been 20.1% in 2017. The ETR is generally lower than the federal statutory rate of 35% due to tax-exempt interest income earned on loans, investments in tax-free municipal securities, credits earned from investments in community development projects that generate tax credits under various federal programs and excess tax benefits realized on stock-based compensation. In 2017, amortization of certain new tax credit investments was recorded in non-interest expense, rather than as a component of income tax expense.

The Corporation is evaluating the impact of the Tax Act on its 2018 ETR. While the ETR is expected to be lower than in 2017 as a result of the decrease in the U.S. corporate statutory tax rate, the level of tax credit investment amortization and related tax credits may impact the ETR.

For additional information regarding income taxes and further discussion regarding the impact of the Tax Act, see "Note 12 - Income Taxes," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data."

FINANCIAL CONDITION

The table below presents condensed consolidated ending balance sheets.

	December 31,		Increase (Decrease)	
	2017	2016	\$	%
(dollars in thousands)				
<u>Assets</u>				
Cash and due from banks	\$ 108,291	\$ 118,763	\$ (10,472)	(8.8)%
Other interest-earning assets.....	354,566	291,252	63,314	21.7
Loans held for sale.....	31,530	28,697	2,833	9.9
Investment securities	2,547,956	2,559,227	(11,271)	(0.4)
Loans, net of allowance	15,598,337	14,530,593	1,067,744	7.3
Premises and equipment	222,802	217,806	4,996	2.3
Goodwill and intangible assets.....	531,556	531,556	—	—
Other assets.....	641,867	666,353	(24,486)	(3.7)
<i>Total Assets</i>	\$ 20,036,905	\$ 18,944,247	\$ 1,092,658	5.8 %
<u>Liabilities and Shareholders' Equity</u>				
Deposits	\$ 15,797,532	\$ 15,012,864	\$ 784,668	5.2 %
Short-term borrowings.....	617,524	541,317	76,207	14.1
Long-term debt	1,038,346	929,403	108,943	11.7
Other liabilities	353,646	339,548	14,098	4.2
<i>Total Liabilities</i>	17,807,048	16,823,132	983,916	5.8
<i>Total Shareholders' Equity</i>	2,229,857	2,121,115	108,742	5.1
<i>Total Liabilities and Shareholders' Equity</i>	\$ 20,036,905	\$ 18,944,247	\$ 1,092,658	5.8 %

Other Interest-Earning Assets

The \$63.3 million, or 21.7%, increase in other interest-earning assets was primarily due to higher balances on deposit with the FRB and higher interest-bearing deposits with other banks.

Investment Securities

The following table presents the carrying amount of investment securities, which were all classified as available for sale, as of December 31:

	2017	2016	2015
	(in thousands)		
U.S. Government sponsored agency securities	\$ 5,938	\$ 134	\$ 25,136
State and municipal securities	408,949	391,641	262,765
Corporate debt securities	97,309	109,409	96,955
Collateralized mortgage obligations.....	602,623	593,860	821,509
Residential mortgage-backed securities	1,120,796	1,317,838	1,158,835
Commercial mortgage-backed securities.....	212,755	24,563	—
Auction rate securities	98,668	97,256	98,059
<i>Total debt securities</i>	2,547,038	2,534,701	2,463,259
Equity securities	918	24,526	21,514
<i>Total</i>	\$2,547,956	\$2,559,227	\$2,484,773

Total investment securities decreased \$11.3 million, or 0.4%, to \$2.5 billion at December 31, 2017. Residential mortgage-backed securities decreased \$197.0 million, or 15.0%, as the Corporation began investing in U.S. agency-backed commercial mortgage-backed securities in order to diversify the investment portfolio. U.S. agency-backed commercial mortgage-backed securities increased \$188.2 million compared to December 31, 2016. Equity securities decreased \$23.6 million as the Corporation sold holdings in its financial institutions stocks to take advantage of increases in values. The net pre-tax unrealized loss on available

for sale investment securities was \$27.8 million as of December 31, 2017, compared to \$35.0 million as of December 31, 2016. The improvement in the unrealized loss reflected, in part, the realized loss of \$4.6 million on the sale of certain collateralized mortgage obligations as part of repositioning investments in that sector. In addition, there was significant improvement in municipal bond pricing at the end of 2017 due to anomalous trading activity in that sector corresponding to the impact of the Tax Act on tax-free bond issuance, which offset the adverse pricing impact of rising rates on other components of the portfolio.

Loans

The following table presents loans outstanding, by type, as of the dates shown, and the changes in balances for the most recent year:

	December 31,					2017 vs. 2016 Increase (Decrease)	
	2017	2016	2015	2014	2013	\$	%
(dollars in thousands)							
Real estate – commercial mortgage.....	\$ 6,364,804	\$ 6,018,582	\$ 5,462,330	\$ 5,197,155	\$ 5,101,922	\$ 346,222	5.8%
Commercial – industrial, financial and agricultural	4,300,297	4,087,486	4,088,962	3,725,567	3,628,420	212,811	5.2
Real estate – residential mortgage.....	1,954,711	1,601,994	1,376,160	1,377,068	1,337,380	352,717	22.0
Real estate – home equity	1,559,719	1,625,115	1,684,439	1,736,688	1,764,197	(65,396)	(4.0)
Real estate – construction.....	1,006,935	843,649	799,988	690,601	573,672	163,286	19.4
Consumer.....	313,783	291,470	268,588	265,431	283,124	22,313	7.7
Leasing, other and overdrafts	295,669	250,366	173,651	131,583	103,301	45,303	18.1
Gross loans	15,795,918	14,718,662	13,854,118	13,124,093	12,792,016	1,077,256	7.3
Unearned income.....	(27,671)	(19,390)	(15,516)	(12,377)	(9,796)	(8,281)	42.7
Loans, net of unearned income.....	<u>\$ 15,768,247</u>	<u>\$ 14,699,272</u>	<u>\$ 13,838,602</u>	<u>\$ 13,111,716</u>	<u>\$ 12,782,220</u>	<u>\$ 1,068,975</u>	<u>7.3%</u>

Total loans, net of unearned income, increased \$1.1 billion, or 7.3%, as of December 31, 2017 compared to December 31, 2016, largely as the result of improved business activity across all markets in the Corporation's footprint. Commercial mortgage loans increased \$346.2 million, or 5.8%, in comparison to December 31, 2016 across all geographic markets, but primarily in Pennsylvania. Commercial loans increased \$212.8 million, or 5.2%, primarily in Pennsylvania. Residential mortgages increased \$352.7 million, or 22.0%, across all geographic markets. Construction loans increased \$163.3 million, or 19.4%, also across all geographic markets with the largest increases recognized in Maryland and New Jersey.

The Corporation does not have a concentration of credit risk with any single borrower, industry or geographic location within its footprint. As of December 31, 2017, approximately \$7.4 billion, or 46.8%, of the loan portfolio was comprised of commercial mortgage and construction loans. The Corporation's policies limit the maximum total lending commitment to an individual borrower to \$50.0 million as of December 31, 2017. In addition, the Corporation has established lower total lending limits for certain types of lending commitments, and lower total lending limits based on the Corporation's internal risk rating of an individual borrower at the time the lending commitment is approved. As of December 31, 2017, the Corporation had 140 relationships with total borrowing commitments between \$20.0 million and \$50.0 million.

The following table summarizes the industry concentrations within the commercial loan portfolio as of December 31:

	2017	2016
Services.....	22.9%	21.8%
Retail.....	15.4	15.1
Manufacturing.....	9.5	9.2
Health care.....	9.1	10.5
Construction ⁽¹⁾	8.3	9.0
Wholesale.....	7.4	7.0
Real estate ⁽²⁾	6.2	6.7
Agriculture.....	5.2	5.0
Arts and entertainment.....	2.4	2.6
Transportation.....	2.2	2.3
Financial services.....	2.2	2.1
Other.....	9.2	8.7
Total.....	100.0%	100.0%

(1) Includes commercial loans to borrowers engaged in the construction industry.

(2) Includes commercial loans to borrowers engaged in the business of: renting, leasing or managing real estate for others; selling and/or buying real estate for others; and appraising real estate.

Commercial loans and commercial mortgage loans also include shared national credits, which are participations in loans or loan commitments of at least \$20 million that are shared by three or more banks. The Corporation only participates in shared national credits to borrowers located in its geographic markets. Below is a summary of the Corporation's outstanding purchased shared national credits as of December 31:

	2017	2016
	(in thousands)	
Commercial - industrial, financial and agricultural.....	\$ 156,277	\$ 155,353
Real estate - commercial mortgage.....	110,658	81,573
Total.....	\$ 266,935	\$ 236,926

Total shared national credits increased \$30.0 million, or 12.7%, in comparison to 2016. As of December 31, 2017, none of the shared national credits were past due.

Construction loans include loans to commercial borrowers secured by residential real estate, loans to commercial borrowers secured by commercial real estate and other construction loans, which represent loans to individuals secured by residential real estate.

The following table presents outstanding construction loans and delinquency rates, by class segment, as of December 31:

	2017			2016		
	\$	Delinquency Rate	% of Total	\$	Delinquency Rate	% of Total
	(dollars in thousands)					
Commercial.....	\$ 765,816	0.1%	76.1%	\$ 644,490	0.2%	76.4%
Commercial - residential.....	163,102	7.5	16.2	142,189	6.0	16.9
Other.....	78,017	0.8	7.7	56,970	1.9	6.7
Total Real estate - construction.....	\$ 1,006,935	1.3%	100.0%	\$ 843,649	1.3%	100.0%

Provision and Allowance for Credit Losses

The Corporation accounts for the credit risk associated with lending activities through the allowance for credit losses and the provision for credit losses.

A summary of the Corporation's loan loss experience follows:

	2017	2016	2015	2014	2013
	(dollars in thousands)				
Loans, net of unearned income outstanding at end of year.....	\$ 15,768,247	\$ 14,699,272	\$ 13,838,602	\$ 13,111,716	\$ 12,782,220
Average balance of loans, net of unearned income.....	\$ 15,236,612	\$ 14,128,064	\$ 13,330,973	\$ 12,885,180	\$ 12,578,524
Balance of allowance for credit losses at beginning of year.....	\$ 171,325	\$ 171,412	\$ 185,931	\$ 204,917	\$ 225,439
Loans charged off:					
Commercial – industrial, financial and agricultural	19,067	15,276	15,639	24,516	30,383
Real estate - home equity and consumer.....	4,567	7,712	5,831	7,811	10,070
Real estate – commercial mortgage	2,169	3,580	4,218	6,004	20,829
Real estate – construction	3,765	1,218	201	1,209	6,572
Leasing, other and overdrafts.....	3,035	3,815	2,656	2,135	2,653
Real estate – residential mortgage	687	2,326	3,612	2,918	9,705
Total loans charged off.....	33,290	33,927	32,157	44,593	80,212
Recoveries of loans previously charged off:					
Commercial – industrial, financial and agricultural	7,771	8,981	5,264	4,256	9,281
Real estate - home equity and consumer.....	1,969	2,466	2,492	2,347	2,378
Real estate – commercial mortgage	1,668	3,373	2,801	1,960	3,494
Real estate – construction	1,582	3,924	2,824	3,177	2,682
Leasing, other and overdrafts.....	968	842	685	916	807
Real estate – residential mortgage	786	1,072	1,322	451	548
Total recoveries	14,744	20,658	15,388	13,107	19,190
Net loans charged off.....	18,546	13,269	16,769	31,486	61,022
Provision for credit losses.....	23,305	13,182	2,250	12,500	40,500
Balance at end of year.....	\$ 176,084	\$ 171,325	\$ 171,412	\$ 185,931	\$ 204,917
<u>Components of Allowance for Credit Losses:</u>					
Allowance for loan losses.....	\$ 169,910	\$ 168,679	\$ 169,054	\$ 184,144	\$ 202,780
Reserve for unfunded lending commitments ⁽¹⁾	6,174	2,646	2,358	1,787	2,137
Allowance for credit losses.....	\$ 176,084	\$ 171,325	\$ 171,412	\$ 185,931	\$ 204,917
<u>Selected Asset Quality Ratios:</u>					
Net charge-offs to average loans.....	0.12%	0.09%	0.13%	0.24%	0.49%
Allowance for loan losses to loans outstanding.....	1.08%	1.15%	1.22%	1.40%	1.59%
Allowance for credit losses to loans outstanding.....	1.12%	1.17%	1.24%	1.42%	1.60%
Non-performing assets ⁽²⁾ to total assets	0.72%	0.76%	0.87%	0.88%	1.00%
Non-performing assets ⁽²⁾ to total loans and OREO.....	0.92%	0.98%	1.13%	1.15%	1.32%
Non-accrual loans to total loans.....	0.79%	0.82%	0.94%	0.92%	1.05%
Allowance for credit losses to non-performing loans.....	130.67%	130.15%	118.37%	134.26%	132.82%
Non-performing assets ⁽²⁾ to tangible equity and allowance for credit losses ⁽³⁾	7.71%	8.20%	9.27%	9.12%	9.76%

(1) Reserve for unfunded lending commitments recorded within other liabilities on the consolidated balance sheets.

(2) Includes accruing loans past due 90 days or more.

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

The provision for credit losses increased \$10.1 million in comparison to 2016 due mainly to loan growth and an increase in the reserve for unfunded lending commitments. The \$3.5 million increase in the reserve for unfunded lending commitments in 2017 as compared to 2016 resulted from a single relationship that experienced financial difficulty, increasing the likelihood that the Corporation would need to fund letters of credit. Net charge-offs increased \$5.3 million, or 39.8%, to \$18.5 million in 2017 from \$13.3 million in 2016. This increase was primarily due to a \$5.0 million, or 79.4%, increase in commercial loan net charge-offs,

and a \$4.9 million increase in construction loan net charge-offs, partially offset by decreases in net charge-offs in consumer and home equity loans of \$2.6 million, or 50.5%, and a \$1.4 million decrease in residential mortgage loan net charge-offs. The \$18.5 million of net charge-offs were primarily in the Pennsylvania (\$16.9 million, or 91.3% of the total), and New Jersey (\$1.5 million, or 8.2% of the total) markets, partially offset by net recoveries in the Virginia and Delaware markets.

The following table presents non-performing assets as of December 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
	(in thousands)				
Non-accrual loans ⁽¹⁾⁽²⁾⁽³⁾	\$ 124,749	\$ 120,133	\$ 129,523	\$ 121,080	\$ 133,753
Loans 90 days or more past due and still accruing ⁽²⁾	10,010	11,505	15,291	17,402	20,524
Total non-performing loans	134,759	131,638	144,814	138,482	154,277
OREO	9,823	12,815	11,099	12,022	15,052
Total non-performing assets	\$ 144,582	\$ 144,453	\$ 155,913	\$ 150,504	\$ 169,329

- (1) In 2017, the total interest income that would have been recorded if non-accrual loans had been current in accordance with their original terms was approximately \$6.2 million. The amount of interest income on non-accrual loans that was recognized in 2017 was approximately \$4.4 million.
- (2) Accrual of interest is generally discontinued when a loan becomes 90 days past due. When interest accruals are discontinued, unpaid interest previously credited to income is reversed. Non-accrual loans may be restored to accrual status when all delinquent principal and interest has been paid currently for six consecutive months or the loan is considered to be adequately secured and in the process of collection. Certain loans, primarily adequately collateralized residential mortgage loans, may continue to accrue interest after reaching 90 days past due.
- (3) Excluded from non-performing assets as of December 31, 2017 were \$66.4 million of loans modified under trouble debt restructurings ("TDRs"). These loans were evaluated for impairment under FASB ASC Section 310-10-35, but continue to accrue interest and are, therefore, not included in non-accrual loans.

The following table presents TDRs as of December 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
	(in thousands)				
Real estate – residential mortgage	\$ 26,016	\$ 27,617	\$ 28,511	\$ 31,308	\$ 28,815
Real estate - home equity	15,558	8,594	4,556	2,975	1,365
Real estate – commercial mortgage	13,959	15,957	17,563	18,822	19,758
Commercial – industrial, financial and agricultural.....	10,820	6,627	5,953	5,237	8,045
Consumer	26	39	33	38	11
Real estate – construction	—	726	3,942	9,241	10,117
Total accruing TDRs	66,379	59,560	60,558	67,621	68,111
Non-accrual TDRs ⁽¹⁾	29,051	27,850	31,035	24,616	30,209
Total TDRs	\$ 95,430	\$ 87,410	\$ 91,593	\$ 92,237	\$ 98,320

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

Total TDRs modified during 2017 and still outstanding as of December 31, 2017 were \$29.6 million. Of these loans, \$5.9 million, or 19.8%, had a payment default during 2017, which the Corporation defines as a single missed scheduled payment, subsequent to modification. TDRs modified during 2016 and still outstanding as of December 31, 2016 totaled \$12.4 million. Of these loans, \$6.0 million, or 48.4%, had a payment default subsequent to modification during 2016.

The following table presents the changes in non-accrual loans for the years ended December 31:

	Commercial - Industrial, Financial and Agricultural	Real Estate - Commercial Mortgage	Real Estate - Construction	Real Estate - Residential Mortgage	Real Estate - Home Equity	Consumer	Leasing	Total
(in thousands)								
Balance of non-accrual loans at December 31, 2015.....	\$ 42,199	\$ 40,731	\$ 12,044	\$ 21,914	\$ 11,210	\$ —	\$ 1,425	\$ 129,523
Additions.....	32,831	25,151	6,921	5,611	8,983	2,803	808	83,108
Payments.....	(14,328)	(14,682)	(6,257)	(3,532)	(2,512)	(1)	(24)	(41,336)
Charge-offs ⁽¹⁾	(15,276)	(3,580)	(1,218)	(2,326)	(4,912)	(2,800)	(2,209)	(32,321)
Transfers to OREO.....	(552)	(2,992)	(1,684)	(2,925)	(1,199)	—	—	(9,352)
Transfers to accrual status.....	(2,525)	(5,692)	—	(311)	(959)	(2)	—	(9,489)
Balance of non-accrual loans at December 31, 2016.....	42,349	38,936	9,806	18,431	10,611	—	—	120,133
Additions.....	48,717	20,596	10,657	3,817	5,264	2,227	1,553	92,831
Payments.....	(19,092)	(20,164)	(4,352)	(2,848)	(1,518)	—	—	(47,974)
Charge-offs ⁽¹⁾	(19,067)	(2,169)	(3,765)	(687)	(2,340)	(2,227)	(1,553)	(31,808)
Transfers to OREO.....	(3)	(1,464)	(149)	(2,729)	(1,895)	—	—	(6,240)
Transfers to accrual status.....	—	(913)	—	(293)	(987)	—	—	(2,193)
Balance of non-accrual loans at December 31, 2017.....	\$ 52,904	\$ 34,822	\$ 12,197	\$ 15,691	\$ 9,135	\$ —	\$ —	\$ 124,749

(1) Excludes charge-offs of loans on accrual status.

Non-accrual loans increased \$4.6 million, or 3.8%, in 2017 due mainly to an increase in non-accrual loan additions from \$83.1 million in 2016 to \$92.8 million in 2017. The non-accrual loan additions occurred mostly in commercial and construction loans, and were not driven by one specific account or event. Non-accrual loan balances continued to be reduced through payments, return to accrual status and charge-offs. Non-accrual loans to total loans decreased to 0.79% at December 31, 2017 from 0.82% in 2016.

The following table presents non-performing loans, by type, as of the dates shown, and the changes in non-performing loans for the most recent year:

	December 31,					2017 vs. 2016 Increase (Decrease)	
	2017	2016	2015	2014	2013	\$	%
(dollars in thousands)							
Commercial – industrial, financial and agricultural	\$ 54,309	\$ 43,460	\$ 44,071	\$ 30,388	\$ 38,021	\$ 10,849	25.0%
Real estate – commercial mortgage	35,447	39,319	41,170	45,237	44,068	(3,872)	(9.8)
Real estate – residential mortgage	20,971	23,655	28,484	28,995	31,347	(2,684)	(11.3)
Real estate – home equity	11,507	13,154	14,683	14,740	16,983	(1,647)	(12.5)
Real estate – construction	12,197	9,842	12,460	16,399	21,267	2,355	23.9
Consumer	296	1,891	2,440	2,590	2,543	(1,595)	(84.3)
Leasing	32	317	1,506	133	48	(285)	(89.9)
Total non-performing loans	\$ 134,759	\$ 131,638	\$ 144,814	\$ 138,482	\$ 154,277	\$ 3,121	2.4%

Non-performing loans increased \$3.1 million, or 2.4%, in comparison to December 31, 2016. As a percentage of total loans, non-performing loans were 0.85% in 2017 and 0.90% in 2016.

Non-performing commercial loans increased \$10.8 million, or 25.0%, in comparison to December 31, 2016. The increase occurred mainly in the Pennsylvania market (\$11.2 million, or 44.7%) and was partially offset by decreases in the Delaware and Maryland markets. In comparison to December 31, 2016, non-performing construction loans increased \$2.4 million, or 23.9%. Geographically, the increase occurred mainly in the New Jersey (\$2.0 million) and Virginia (\$1.4 million) markets, partially offset by decreases in the Delaware and Maryland markets.

These increases in commercial and construction non-performing loans were partially offset by decreases in commercial and residential mortgages, home equity, consumer loans and leasing. Non-performing commercial mortgages decreased \$3.9 million,

or 9.8%, with decreases occurring in the Maryland (\$2.7 million, or 73.8%), Delaware (\$1.6 million, or 23.2%) and New Jersey (\$1.6 million, or 10.6%) markets, partially offset by increases in the Virginia and Pennsylvania markets.

Residential mortgage loans decreased \$2.7 million, or 11.3%, in comparison to December 31, 2016. Geographically, the decrease occurred mainly in the New Jersey (\$1.9 million, or 28.8%) and Maryland (\$1.2 million, or 58.1%) markets.

In comparison to December 31, 2016, non-performing home equity, consumer loans and leases decreased \$3.5 million, or 23.0%. Geographically, the decrease occurred mainly in the Pennsylvania market.

The following table summarizes OREO, by property type, as of December 31:

	2017	2016
	(in thousands)	
Residential properties.....	\$ 4,562	\$ 7,655
Commercial properties.....	3,331	2,651
Undeveloped land.....	1,930	2,509
Total OREO.....	<u>\$ 9,823</u>	<u>\$ 12,815</u>

Total OREO as of December 31, 2017 decreased \$3.0 million, or 23.3%, compared to December 31, 2016 as a result of various factors related to general economic conditions but largely an increase in buyer activity resulting in OREO properties selling in a shorter period of time.

As noted under the heading "Critical Accounting Policies" within Management's Discussion, the Corporation's ability to identify potential problem loans in a timely manner is key to maintaining an adequate allowance for credit losses. For commercial loans, commercial mortgages and construction loans to commercial borrowers, an internal risk rating process is used to monitor credit quality. For a complete description of the Corporation's risk ratings, refer to the "Allowance for Credit Losses" section within "Note 1 - Summary of Significant Accounting Policies," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data." The evaluation of credit risk for residential mortgages, home equity loans, construction loans to individuals, consumer loans and lease receivables is based on aggregate payment history, through the monitoring of delinquency levels and trends.

Total internally risk rated loans were \$11.6 billion and \$10.9 billion as of December 31, 2017 and 2016, respectively. The following table presents internal risk ratings of special mention or lower for commercial loans, commercial mortgages and construction loans to commercial borrowers, by class segment, as of December 31:

	Special Mention		2017 vs. 2016 Increase (Decrease)		Substandard or Lower		2017 vs. 2016 Increase (Decrease)		Total Criticized Loans	
	2017	2016	\$	%	2017	2016	\$	%	2017	2016
(dollars in thousands)										
Real estate - commercial mortgage.....	\$ 147,604	\$ 132,484	\$ 15,120	11.4 %	\$ 150,804	\$ 122,976	\$ 27,828	22.6%	\$ 298,408	\$ 255,460
Commercial - secured.....	121,842	128,873	(7,031)	(5.5)	179,113	118,527	60,586	51.1	300,955	247,400
Commercial -unsecured.....	5,478	4,481	997	22.2	2,759	3,531	(772)	(21.9)	8,237	8,012
Total commercial - industrial, financial and agricultural.....	127,320	133,354	(6,034)	(4.5)	181,872	122,058	59,814	49.0	309,192	255,412
Construction - commercial residential.....	5,259	15,447	(10,188)	(66.0)	14,084	13,172	912	6.9	19,343	28,619
Construction - commercial.....	846	3,412	(2,566)	(75.2)	3,752	5,115	(1,363)	(26.6)	4,598	8,527
Total real estate - construction (excluding construction - other).....	6,105	18,859	(12,754)	(67.6)	17,836	18,287	(451)	(2.5)	23,941	37,146
Total.....	<u>\$ 281,029</u>	<u>\$ 284,697</u>	<u>\$ (3,668)</u>	<u>(1.3)%</u>	<u>\$ 350,512</u>	<u>\$ 263,321</u>	<u>\$ 87,191</u>	<u>33.1%</u>	<u>\$ 631,541</u>	<u>\$ 548,018</u>
% of total risk rated loans.....	<u>2.4%</u>	<u>2.6%</u>			<u>3.0%</u>	<u>2.4%</u>			<u>5.4%</u>	<u>5.0%</u>

As of December 31, 2017, total loans with risk ratings of special mention and substandard or lower were \$83.5 million, or 15.2%, higher than 2016, primarily the result of downgrades across various industries and geographic markets as part of the Corporation's normal credit risk management processes.

The following table presents, by class segment, a summary of delinquency status and rates, as a percentage of total loans, for loans that do not have internal risk ratings as of December 31:

	Delinquent ⁽¹⁾				Non-performing ⁽²⁾				Total Past Due			
	2017		2016		2017		2016		2017		2016	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
	(dollars in thousands)											
Real estate - home equity.....	\$ 12,655	0.81%	\$ 9,274	0.57%	\$ 11,507	0.74%	\$ 13,154	0.81%	\$ 24,162	1.55%	\$ 22,428	1.38%
Real estate - residential mortgage	18,852	0.97	20,344	1.27	20,971	1.07	23,655	1.48	39,823	2.04	43,999	2.75
Real estate - construction - other	203	0.26	—	—	411	0.53	1,096	1.92	614	0.79	1,096	1.92
Consumer - direct	315	0.57	1,752	1.81	70	0.13	1,563	1.61	385	0.70	3,315	3.42
Consumer - indirect	3,681	1.42	3,599	1.85	226	0.09	328	0.17	3,907	1.51	3,927	2.02
Total Consumer.....	3,996	1.28	5,351	1.83	296	0.09	1,891	0.65	4,292	1.37	7,242	2.48
Leasing, other and Overdrafts	855	0.32	1,068	0.46	32	0.01	317	0.14	887	0.33	1,385	0.60
Total.....	\$ 36,561	0.87%	\$ 36,037	0.95%	\$ 33,217	0.80%	\$ 40,113	1.05%	\$ 69,778	1.67%	\$ 76,150	2.00%

(1) Includes all accruing loans 30 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 summarizes the allocation of the allowance for loan losses:

	2017		2016		2015		2014		2013	
	Allowance	% of Loans In Each Category	Allowance	% of Loans In Each Category	Allowance	% of Loans In Each Category	Allowance	% of Loans In Each Category	Allowance	% of Loans In Each Category
	(dollars in thousands)									
Real estate - commercial mortgage.....	\$ 58,793	40.3%	\$ 46,842	40.9%	\$ 47,866	39.5%	\$ 53,493	39.6%	\$ 55,659	39.9%
Commercial - industrial, financial and agricultural.....	66,280	27.2	54,353	27.8	57,098	29.5	51,378	28.4	50,330	28.4
Real estate - residential mortgage.....	16,088	12.4	22,929	10.9	21,375	9.9	29,072	10.5	33,082	10.5
Consumer, home equity, leasing & other.....	22,129	13.7	33,567	14.7	27,458	15.3	33,085	16.2	34,852	16.7
Real estate - construction.....	6,620	6.4	6,455	5.7	6,529	5.8	9,756	5.3	12,649	4.5
Unallocated	—	N/A	4,533	N/A	8,728	N/A	7,360	N/A	16,208	N/A
	\$ 169,910	100.0%	\$ 168,679	100.0%	\$ 169,054	100.0%	\$ 184,144	100.0%	\$ 202,780	100.0%

N/A – Not applicable

Management believes that the \$169.9 million allowance for loan losses as of December 31, 2017 is sufficient to cover incurred losses in the loan portfolio. See additional disclosures in "Note 1 - Summary of Significant Accounting Policies," and "Note 4 - Loans and Allowance for Credit Losses," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data;" and "Critical Accounting Policies" above.

Other Assets

Other assets decreased \$24.5 million, or 3.7%, to \$641.9 million as of December 31, 2017, primarily driven by a \$15.6 million decrease in net deferred tax assets resulting from the Tax Act.

Deposits and Borrowings

The following table summarizes the increase in ending deposits, by type:

	2017	2016	Increase (Decrease)	
			\$	%
			(dollars in thousands)	
Noninterest-bearing demand.....	\$ 4,437,294	\$ 4,376,137	\$ 61,157	1.4%
Interest-bearing demand.....	4,018,107	3,703,712	314,395	8.5
Savings and money market accounts	4,586,746	4,179,773	406,973	9.7
<i>Total demand, savings and money market accounts.....</i>	13,042,147	12,259,622	782,525	6.4
Brokered deposits.....	90,473	—	90,473	N/M
Time deposits	2,664,912	2,753,242	(88,330)	(3.2)
<i>Total deposits.....</i>	\$ 15,797,532	\$ 15,012,864	\$ 784,668	5.2%

N/M - Not meaningful

Noninterest-bearing demand deposits increased \$61.2 million, or 1.4%, primarily due to a \$60.1 million increase in personal account balances and a \$56.8 million increase in business account balances, partially offset by a \$63.6 million decrease in state and municipal account balances. Interest-bearing demand accounts increased \$314.4 million, or 8.5%, due to a \$234.8 million, or 18.0%, increase in state and municipal account balances, a \$70.8 million, or 3.4%, increase in personal account balances, and an \$8.8 million, or 2.7%, increase in business account balances. The \$407.0 million, or 9.7%, increase in savings and money market account balances was primarily due to a \$478.0 million, or 17.0%, increase in personal account balances, largely driven by promotional efforts throughout the year.

Brokered deposits totaled \$90.5 million as of December 31, 2017. As previously noted, during the third quarter of 2017, the Corporation began accepting deposits pursuant to an agreement with a non-bank third party, which are considered to be brokered deposits. For more details, see "Net Interest Income" under "Results of Operations" above.

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

	2017	2016	Increase (Decrease)	
			\$	%
			(dollars in thousands)	
Short-term borrowings:				
Customer repurchase agreements.....	\$ 172,017	\$ 195,734	\$ (23,717)	(12.1)%
Customer short-term promissory notes	225,507	67,013	158,494	N/M
<i>Total short-term customer funding.....</i>	397,524	262,747	134,777	51.3
Federal funds purchased.....	220,000	278,570	(58,570)	(21.0)
<i>Total short-term borrowings</i>	617,524	541,317	76,207	14.1
Long-term debt:				
FHLB advances	652,113	567,240	84,873	15.0
Other long-term debt.....	261,233	362,163	(100,930)	(27.9)
<i>Total long-term debt.....</i>	913,346	929,403	(16,057)	(1.7)
<i>Total borrowings.....</i>	\$ 1,530,870	\$ 1,470,720	\$ 60,150	4.1 %

N/M - Not meaningful

The \$76.2 million, or 14.1%, increase in total short-term borrowings resulted from a \$158.5 million increase in customer short-term promissory notes, partially offset by a \$23.7 million, or 12.1%, and a \$58.6 million, or 21.0%, decrease in customer repurchase agreements and Federal funds purchased, respectively. The \$84.9 million increase in FHLB advances provided additional funding to support loan growth. The increase in other long-term debt was primarily the result of the issuance of \$125.0 million of senior notes in March of 2017, partially offset by the repayment of the \$100.0 million of 10-year subordinated notes, which matured on May 1, 2017.

Other Liabilities

Other liabilities increased \$14.1 million, or 4.2%, to \$353.6 million as of December 31, 2017. The increase resulted primarily from a \$28.2 million increase in commitments to fund tax credit investments.

Shareholders' Equity

Total shareholders' equity increased \$108.7 million, or 5.1%, to \$2.2 billion, or 11.1%, of total assets, as of December 31, 2017. The increase was due primarily to \$171.8 million of net income, \$8.5 million of common stock issued and a \$5.5 million net increase in accumulated other comprehensive income, partially offset by \$82.2 million of common stock cash dividends.

In November 2017, the Corporation's board of directors approved an extension to a share repurchase program pursuant to which the Corporation is authorized to repurchase up to \$50.0 million of its outstanding shares of common stock, or approximately 2.3% of its outstanding shares, through December 31, 2018. As of December 31, 2017, 1.5 million shares had been repurchased under this program for a total cost of approximately \$18.5 million, or \$12.48 per share. Up to an additional \$31.5 million of the Corporation's common stock may be repurchased under this program through December 31, 2018.

The Corporation and its subsidiary banks are subject to regulatory capital requirements administered by various banking regulators. Failure to meet minimum capital requirements can trigger certain actions by regulators that could have a material effect on the Corporation's financial statements. The regulations require that banks and bank holding companies maintain minimum amounts and ratios of total, Tier I and Common Equity Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier I capital to average assets (as defined).

The following table summarizes the Corporation's capital ratios in comparison to regulatory requirements at December 31:

	2017	2016	Regulatory Minimum for Capital Adequacy	Fully Phased- in, with Capital Conservation Buffers
Total capital (to risk-weighted assets).....	13.0%	13.2%	8.0%	10.5%
Tier I capital (to risk-weighted assets).....	10.4%	10.4%	6.0%	8.5%
Common equity tier I (to risk-weighted assets).....	10.4%	10.4%	4.5%	7.0%
Tier I capital (to average assets)	8.9%	9.0%	4.0%	4.0%

In July 2013, the FRB approved final rules (the "U.S. Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations and implementing the Basel Committee on Banking Supervision's December 2010 framework for strengthening international capital standards. The U.S. Basel III Capital Rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions.

The minimum regulatory capital requirements established by the U.S. Basel III Capital Rules became effective for the Corporation on January 1, 2015, and will be fully phased in on January 1, 2019.

The U.S. Basel III Capital Rules require the Corporation and its bank subsidiaries to:

- Meet a minimum Common Equity Tier 1 capital ratio of 4.50% of risk-weighted assets and a Tier 1 capital ratio of 6.00% of risk-weighted assets;
- Continue to require a minimum Total capital ratio of 8.00% of risk-weighted assets and a Tier 1 leverage capital ratio of 4.00% of average assets; and
- Comply with a revised definition of capital to improve the ability of regulatory capital instruments to absorb losses as a result of which certain non-qualifying capital instruments, including cumulative preferred stock and TruPS, will be excluded as a component of Tier 1 capital for institutions of the Corporation's size.

When fully phased in on January 1, 2019, the Corporation and its bank subsidiaries will also be required to maintain a "capital conservation buffer" of 2.50% above the minimum risk-based capital requirements, which must be maintained to avoid restrictions on capital distributions and certain discretionary bonus payments.

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

As of December 31, 2017, the Corporation and each of its bank subsidiaries met the minimum requirements of the U.S. Basel III Capital Rules, and each of the Corporation's bank subsidiaries' capital ratios exceeded the amounts required to be considered "well capitalized" as defined in the regulations. As of December 31, 2017, the Corporation's capital levels also met the fully-phased in

minimum capital requirements, including the capital conservation buffers, as prescribed in the U.S. Basel III Capital Rules. See "Note 11 - Regulatory Matters," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data."

Contractual Obligations and Off-Balance Sheet Arrangements

The Corporation has various financial obligations that require future cash payments. These obligations include payments for liabilities recorded on the Corporation's consolidated balance sheets as well as contractual obligations for purchased services or for operating leases.

The following table summarizes the Corporation's significant contractual obligations to third parties, by type, that were fixed and determinable as of December 31, 2017:

	Payments Due In				Total
	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	
	(in thousands)				
Deposits with no stated maturity ⁽¹⁾	\$ 13,132,620	\$ —	\$ —	\$ —	\$ 13,132,620
Time deposits ⁽²⁾	1,085,369	1,302,923	199,478	77,142	2,664,912
Short-term borrowings ⁽³⁾	617,524	—	—	—	617,524
Long-term debt ⁽³⁾	99,217	344,313	329,129	265,685	1,038,344
Operating leases ⁽⁴⁾	17,417	30,322	23,751	45,905	117,395
Purchase obligations ⁽⁵⁾	26,825	43,884	10,204	—	80,913
Uncertain tax positions ⁽⁶⁾	2,550	—	—	—	2,550

- (1) Includes demand deposits, savings accounts and brokered deposits, which can be withdrawn at any time.
- (2) See additional information regarding time deposits in "Note 8 - Deposits," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data."
- (3) See additional information regarding borrowings in "Note 9 - Short-Term Borrowings and Long-Term Debt," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data."
- (4) See additional information regarding operating leases in "Note 16 - Leases," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data."
- (5) Includes information technology, telecommunication and data processing outsourcing contracts.
- (6) Includes accrued interest. See additional information related to uncertain tax positions in "Note 12 - Income Taxes," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data."

In addition to the contractual obligations listed in the preceding table, 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. These financial instruments include commitments to extend credit and standby and commercial letters of credit, which involve, to varying degrees, elements of credit and interest rate risk that are not recognized on the consolidated balance sheets. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Standby letters of credit are conditional commitments issued to guarantee the financial or performance obligation of a customer to a third party. Commercial letters of credit are conditional commitments issued to facilitate foreign or domestic trade transactions for customers. Commitments and standby and commercial letters of credit do not necessarily represent future cash needs, as they may expire without being drawn.

The following table presents the Corporation's commitments to extend credit and letters of credit as of December 31, 2017 (in thousands):

Commercial and other	\$	3,689,700
Home equity		1,422,284
Commercial mortgage and construction		1,093,045
<i>Total commitments to extend credit</i>	\$	<u>6,205,029</u>
Standby letters of credit	\$	326,973
Commercial letters of credit		41,801
<i>Total letters of credit</i>	\$	<u>368,774</u>

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the exposure to economic loss that arises from changes in the values of certain financial instruments. The types of market risk exposures generally faced by financial institutions include interest rate risk, equity market price risk, debt security market price risk, foreign currency price risk and commodity price risk. Due to the nature of its operations, foreign currency price risk and commodity price risk are not significant to the Corporation.

Interest Rate Risk, Asset/Liability Management and Liquidity

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

The Corporation employs various management techniques to minimize its exposure to interest rate risk. An Asset/Liability Management Committee ("ALCO") is responsible for reviewing the interest rate sensitivity and liquidity positions of the Corporation, approving asset and liability management policies, and overseeing the formulation and implementation of strategies regarding balance sheet positions.

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

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

Contractual maturities and repricing opportunities of loans are incorporated in the simulation model as are prepayment assumptions, maturity data and call options within the investment portfolio. Assumptions based on past experience are incorporated into the model for non-maturity deposit accounts. The assumptions used are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, amount and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

The following table summarizes the expected impact of abrupt interest rate changes on net interest income (due to the current level of interest rates, the 200 and 300 basis point downward shock scenarios are not shown) as of December 31, 2017:

<u>Rate Shock (1)</u>	<u>Annual change in net interest income</u>	<u>% Change in net interest income</u>
+300 bp	+ \$92.2 million	+ 14.7%
+200 bp	+ \$63.5 million	+ 10.1%
+100 bp	+ \$32.6 million	+ 5.2%
-100 bp.....	- \$50.4 million	- 8.0%

(1) These results include the effect of implicit and explicit interest rate floors that limit further reduction in interest rates.

Economic value of equity estimates the discounted present value of asset and liability cash flows. Discount rates are based upon market prices for like assets and liabilities. Abrupt changes or "shocks" in interest rates, both upward and downward, are used to determine the comparative effect of such interest rate movements relative to the unchanged environment. This measurement tool is used primarily to evaluate the longer-term repricing risks and options in the Corporation's balance sheet. The Corporation's policy limits the economic value of equity that may be at risk, in a non-parallel instantaneous shock, to 10% of the base case economic value of equity for a 100 basis point shock in interest rates, 20% for a 200 basis point shock and 30% for a 300 basis

point shock. As of December 31, 2017, the Corporation was within economic value of equity policy limits for every 100 basis point shock.

Interest Rate Swaps

The Corporation enters into interest rate swaps with certain qualifying commercial loan customers to meet their interest rate risk management needs. The Corporation simultaneously enters into interest rate swaps with dealer counterparties, with identical notional amounts and terms. The net result of these interest rate swaps is that the customer pays a fixed rate of interest and the Corporation receives a floating rate. These interest rate swaps are derivative financial instruments that are recorded at their fair value in other assets and liabilities on the consolidated balance sheets. Changes in fair value during the period are recorded in other non-interest expense on the consolidated statements of income.

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 investments and outstanding loans and through the availability of deposits and borrowings. The Corporation also maintains secondary sources that provide liquidity on a secured and unsecured basis to meet short-term and long-term needs.

The Corporation maintains liquidity sources in the form of demand and savings deposits, time deposits, repurchase agreements and short-term promissory notes. The Corporation can access additional liquidity from these sources, if necessary, by increasing the rates of interest paid on those accounts and borrowings. The positive impact to liquidity resulting from paying higher interest rates could have a detrimental impact on the net interest margin and net interest income if rates on interest-earning assets do not increase in proportion. Borrowing availability with the FHLB and the FRB, along with Federal funds lines at various correspondent banks, provides the Corporation with additional liquidity.

Each of the Corporation's subsidiary banks is a member of the FHLB and has access to FHLB overnight and term credit facilities. As of December 31, 2017, the Corporation had \$652.1 million of short- and long-term advances outstanding from the FHLB with an additional borrowing capacity of approximately \$3.6 billion under these facilities. Advances from the FHLB are secured by qualifying commercial real estate and residential mortgage loans, investments and other assets.

As of December 31, 2017, the Corporation had aggregate availability under federal funds lines of \$1.2 billion, with \$220.0 million borrowed against that amount. A combination of commercial real estate loans, commercial loans and securities are pledged to the FRB of Philadelphia to provide access to FRB Discount Window borrowings. As of December 31, 2017, the Corporation had \$617.4 million of collateralized borrowing availability at the Discount Window, and no outstanding borrowings.

Liquidity must also be managed at the 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. See "Note 11 - Regulatory Matters - Dividend and Loan Limitations" in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data" for additional information concerning limitations on the dividends that may be paid to the Corporation, and loans that may be granted to the Corporation and its affiliates, by the Corporation's subsidiary banks. Management continues to monitor the liquidity and capital needs of the parent company and will implement appropriate strategies, as necessary, to remain adequately capitalized and to meet its cash needs.

The Corporation's sources and uses of funds were discussed in general terms in the "Net Interest Income" section of Management's Discussion and Analysis. The consolidated statements of cash flows provide additional information. The Corporation's operating activities during 2017 generated \$258.8 million of cash, mainly due to net income. Cash used in investing activities was \$1.2 billion, due to net increases in loans and investment securities. Net cash provided by financing activities was \$897.1 million due mainly to increases in deposits.

The following table presents the expected maturities of available for sale investment securities, at estimated fair value, as of December 31, 2017 and the weighted average yields of such securities (calculated based on historical cost):

	Maturing							
	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(dollars in thousands)							
U.S. Government sponsored agency securities	\$ 1	1.29%	\$ 3	1.91%	\$ 5,934	2.53%	\$ —	—%
State and municipal ⁽¹⁾	13,771	3.90	24,115	3.91	40,081	5.69	330,982	4.78
Auction rate securities ⁽²⁾	—	—	—	—	—	—	98,668	2.90
Corporate debt securities	3,148	8.09	9,447	3.18	67,149	3.84	17,565	4.28
Total	\$ 16,920	4.67%	\$ 33,565	3.71%	\$ 113,164	4.41%	\$ 447,215	4.31%
Collateralized mortgage obligations ⁽³⁾	\$ 602,623	2.18%						
Residential mortgage-backed securities ⁽³⁾	\$ 1,120,796	2.24%						
Commercial mortgage-backed securities ⁽³⁾ ..	\$ 212,755	2.34%						

- (1) Weighted average yields on tax-exempt securities have been computed on a fully taxable-equivalent basis assuming a federal tax rate of 35% and statutory interest expense disallowances.
- (2) Maturities of auction rate securities are based on contractual maturities.
- (3) Maturities for mortgage-backed securities and collateralized mortgage obligations are dependent upon the interest rate environment and prepayments on the underlying loans. For the purpose of this table, all balances and weighted average rates are shown in one period. As of December 31, 2017, the weighted average remaining lives of collateralized mortgage obligations and mortgage-backed securities were four and five years, respectively.

The Corporation's investment portfolio consists mainly of mortgage-backed securities and collateralized mortgage obligations which have stated maturities that may differ from actual maturities due to borrowers' ability to prepay obligations. Cash flows from such investments are dependent upon the performance of the underlying mortgage loans and are generally influenced by the level of interest rates. As rates increase, cash flows generally decrease as prepayments on the underlying mortgage loans decrease. As rates decrease, cash flows generally increase as prepayments increase.

The following table presents the approximate contractual maturities of fixed rate loans and loan types subject to changes in interest rates as of December 31, 2017:

	One Year or Less	One Through Five Years	More Than Five Years	Total
	(in thousands)			
Commercial - industrial, financial and agricultural				
Adjustable and floating rate	\$ 947,790	\$ 2,069,501	\$ 441,292	\$ 3,458,583
Fixed rate	219,626	335,488	286,600	841,714
Total	\$ 1,167,416	\$ 2,404,989	\$ 727,892	\$ 4,300,297
Real estate – mortgage ⁽¹⁾ :				
Adjustable and floating rate	\$ 1,383,727	\$ 4,016,947	\$ 2,306,955	\$ 7,707,629
Fixed rate	506,451	1,109,590	555,564	2,171,605
Total	\$ 1,890,178	\$ 5,126,537	\$ 2,862,519	\$ 9,879,234
Real estate – construction:				
Adjustable and floating rate	\$ 295,248	\$ 356,802	\$ 238,650	\$ 890,700
Fixed rate	89,667	10,048	16,520	116,235
Total	\$ 384,915	\$ 366,850	\$ 255,170	\$ 1,006,935

- (1) Includes commercial mortgages, residential mortgages and home equity loans.

Contractual maturities of time deposits as of December 31, 2017 were as follows (in thousands):

Year	
2018	\$ 1,085,369
2019	866,233
2020	436,690
2021	122,516
2022	76,962
Thereafter	77,142
	<u>\$ 2,664,912</u>

Contractual maturities of time deposits of \$100,000 or more outstanding, included in the table above, as of December 31, 2017 were as follows (in thousands):

Three months or less	\$ 147,094
Over three through six months	111,628
Over six through twelve months	194,555
Over twelve months	728,579
Total.....	<u>\$ 1,181,856</u>

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 exposure to equity market price risk has been greatly reduced over the past several years. The fair value of equity investments in the investments securities portfolio were \$918,000 at December 31, 2017.

In addition to its equity portfolio, investment management and trust services income may be impacted by fluctuations in the equity markets. A portion of this revenue is based on the value of the underlying investment portfolios, many of which include equity investments. If the values of those investment portfolios decrease, whether due to factors influencing the U.S. or international securities markets in general or otherwise, the Corporation's revenue would be negatively impacted. Total assets under management were \$7.1 billion at December 31, 2017. In addition, the Corporation's ability to sell its brokerage services in the future will be dependent, in part, upon consumers' level of confidence in financial markets.

Debt Security Market Price Risk

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

State and Municipal Securities

As of December 31, 2017, the Corporation owned state and municipal securities issued by various states and municipalities with a total fair value of \$408.9 million. Ongoing uncertainty with respect to the financial strength of state and municipal bond insurers places much greater emphasis on the underlying strength of issuers. Continued pressure on local tax revenues of issuers due to adverse economic conditions could have an adverse impact on the underlying credit quality of issuers. The Corporation evaluates existing and potential holdings primarily based on the underlying creditworthiness of the issuing state or municipality and then, to a lesser extent, on any credit enhancement. State and municipal securities can be supported by the general obligation of the issuing state or municipality, allowing the securities to be repaid by any means available to the issuing state or municipality. As of December 31, 2017, approximately 98% of state and municipal securities were supported by the general obligation of corresponding states or municipalities. Approximately 61% of these securities were school district issuances, which are also supported by the states of the issuing municipalities.

Auction Rate Securities

As of December 31, 2017, the Corporation's investments in student loan auction rate securities, also known as auction rate certificates ("ARCs"), had a cost basis of \$107.4 million and an estimated fair value of \$98.7 million. The fair values of the ARCs currently in the portfolio were derived using significant unobservable inputs based on an expected cash flows model which produced fair values that may not represent those that could be expected from settlement of these investments in the current market. The expected cash flows model produced fair values which assumed a return to market liquidity sometime within the next five years. The Corporation believes that the trusts underlying the ARCs will self-liquidate as student loans are repaid.

The credit quality of the underlying debt associated with the ARCs is also a factor in the determination of their estimated fair value. As of December 31, 2017, all of the ARCs were rated above investment grade, with approximately \$5.6 million, or 6%, "AAA" rated and \$93.0 million, or 94%, "AA" rated. All of the loans underlying the ARCs have principal payments which are guaranteed by the federal government. At December 31, 2017, all of the Corporation's ARCs were current and making scheduled interest payments.

Corporate Debt Securities

The Corporation holds corporate debt securities in the form of single-issuer trust preferred securities and subordinated debt issued by financial institutions. As of December 31, 2017, these securities had an amortized cost of \$96.4 million and an estimated fair value of \$97.3 million.

See "Note 3 - Investment Securities," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data" for further discussion related to the Corporation's other-than-temporary impairment evaluations for debt securities, and see "Note 18 - Fair Value Measurements," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data" for further discussion related to the fair values of debt securities.

Item 8. Financial Statements and Supplementary Data**CONSOLIDATED BALANCE SHEETS**

(dollars in thousands, except per-share data)

	December 31,	
	2017	2016
Assets		
Cash and due from banks	\$ 108,291	\$ 118,763
Interest-bearing deposits with other banks.....	293,805	233,763
Federal Reserve Bank and Federal Home Loan Bank stock.....	60,761	57,489
Loans held for sale	31,530	28,697
Available for sale investment securities	2,547,956	2,559,227
Loans, net of unearned income	15,768,247	14,699,272
Allowance for loan losses	(169,910)	(168,679)
<i>Net Loans</i>	<u>15,598,337</u>	<u>14,530,593</u>
Premises and equipment.....	222,802	217,806
Accrued interest receivable.....	52,910	46,294
Goodwill and intangible assets	531,556	531,556
Other assets	588,957	620,059
<i>Total Assets</i>	<u>\$ 20,036,905</u>	<u>\$ 18,944,247</u>
Liabilities		
Deposits:		
Noninterest-bearing.....	\$ 4,437,294	\$ 4,376,137
Interest-bearing	11,360,238	10,636,727
<i>Total Deposits</i>	<u>15,797,532</u>	<u>15,012,864</u>
Short-term borrowings:		
Federal funds purchased	220,000	278,570
Other short-term borrowings.....	397,524	262,747
<i>Total Short-Term Borrowings</i>	<u>617,524</u>	<u>541,317</u>
Accrued interest payable	9,317	9,632
Other liabilities.....	344,329	329,916
Federal Home Loan Bank advances and long-term debt	1,038,346	929,403
<i>Total Liabilities</i>	<u>17,807,048</u>	<u>16,823,132</u>
Shareholders' Equity		
Common stock, \$2.50 par value, 600 million shares authorized, 220.9 million shares issued in 2017 and 219.9 million shares issued in 2016	552,232	549,707
Additional paid-in capital.....	1,478,389	1,467,602
Retained earnings	821,619	732,099
Accumulated other comprehensive loss.....	(32,974)	(38,449)
Treasury stock, 45.7 million shares in 2017 and 45.8 million shares in 2016	(589,409)	(589,844)
<i>Total Shareholders' Equity</i>	<u>2,229,857</u>	<u>2,121,115</u>
<i>Total Liabilities and Shareholders' Equity</i>	<u>\$ 20,036,905</u>	<u>\$ 18,944,247</u>

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands, except per-share data)

	2017	2016	2015
Interest Income			
Loans, including fees	\$ 603,961	\$ 543,385	\$ 524,060
Investment securities:			
Taxable	47,028	44,975	45,279
Tax-exempt	11,566	9,662	7,879
Dividends	369	571	985
Loans held for sale	876	728	801
Other interest income	5,066	3,779	4,785
<i>Total Interest Income</i>	668,866	603,100	583,789
Interest Expense			
Deposits	57,791	44,693	40,482
Short-term borrowings	2,779	855	372
Long-term debt	32,932	36,780	42,941
<i>Total Interest Expense</i>	93,502	82,328	83,795
<i>Net Interest Income</i>	575,364	520,772	499,994
Provision for credit losses	23,305	13,182	2,250
<i>Net Interest Income After Provision for Credit Losses</i>	552,059	507,590	497,744
Non-Interest Income			
Other service charges and fees	52,859	51,473	43,992
Service charges on deposit accounts	51,006	51,346	50,097
Investment management and trust services	49,249	45,270	44,056
Mortgage banking income	19,928	19,415	18,208
Other	25,861	20,124	16,420
Non-interest income before investment securities gains	198,903	187,628	172,773
Investment securities gains, net	9,071	2,550	9,066
<i>Total Non-Interest Income</i>	207,974	190,178	181,839
Non-Interest Expense			
Salaries and employee benefits	290,130	283,353	260,832
Net occupancy expense	49,708	47,611	47,777
Data processing and software	38,735	36,919	34,640
Other outside services	27,501	23,883	27,785
Equipment expense	12,935	12,788	14,514
Professional fees	12,688	11,004	11,244
FDIC insurance expense	11,049	9,767	11,470
Amortization of tax credit investments	11,028	—	—
State taxes	10,051	6,405	7,297
Marketing	8,034	7,044	7,324
Loss on redemption of trust preferred securities	—	—	5,626
Other	53,720	50,745	51,651
<i>Total Non-Interest Expense</i>	525,579	489,519	480,160
<i>Income Before Income Taxes</i>	234,454	208,249	199,423
Income taxes	62,701	46,624	49,921
<i>Net Income</i>	\$ 171,753	\$ 161,625	\$ 149,502
Per Share:			
Net Income (Basic)	\$ 0.98	\$ 0.93	\$ 0.85
Net Income (Diluted)	0.98	0.93	0.85
Cash Dividends	0.47	0.41	0.38

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

	2017	2016	2015
Net Income.....	\$ 171,753	\$ 161,625	\$ 149,502
Other Comprehensive Income (Loss), net of tax:			
Unrealized (losses) gains on available for sale investment securities:			
Unrealized gain (loss) on securities.....	10,432	(14,891)	(7,717)
Reclassification adjustment for securities gains included in net income	(5,894)	(1,657)	(5,892)
Non-credit related unrealized gain (loss) on other-than-temporarily impaired debt securities.....	185	(185)	239
Net unrealized gains (losses) on available for sale investment securities.....	4,723	(16,733)	(13,370)
Unrealized gains on derivative financial instruments:			
Amortization of unrealized loss on derivative financial instruments.....	—	16	75
Reclassification adjustment for loss on derivative financial instruments included in net income....	—	—	2,456
Net unrealized gains on derivative financial instruments.....	—	16	2,531
Defined benefit pension plan and postretirement benefits:			
Unrecognized pension and postretirement (cost) income	(609)	(931)	4,680
Amortization of net unrecognized pension and postretirement income.....	1,361	1,216	1,864
Net unrealized gains on defined benefit pension and postretirement plans	752	285	6,544
<i>Other Comprehensive Income (Loss)</i>	5,475	(16,432)	(4,295)
<i>Total Comprehensive Income</i>	\$ 177,228	\$ 145,193	\$ 145,207

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands, except per share data)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
	Shares Outstanding	Amount					
Balance at December 31, 2014.....	178,924	\$ 545,555	\$ 1,420,523	\$ 558,810	\$ (17,722)	\$ (510,501)	\$ 1,996,665
Net income				149,502			149,502
Other comprehensive loss					(4,295)		(4,295)
Stock issued, including related tax benefits	1,018	1,586	4,229			4,993	10,808
Stock-based compensation awards.....			5,938				5,938
Acquisition of treasury stock.....	(3,976)					(50,000)	(50,000)
Settlement of accelerated stock repurchase agreement ..	(1,790)		20,000			(20,000)	—
Common stock cash dividends - \$0.38 per share				(66,724)			(66,724)
Balance at December 31, 2015.....	174,176	\$ 547,141	\$ 1,450,690	\$ 641,588	\$ (22,017)	\$ (575,508)	\$ 2,041,894
Net income				161,625			161,625
Other comprehensive loss					(16,432)		(16,432)
Stock issued, including related tax benefits	1,350	2,566	10,356			4,209	17,131
Stock-based compensation awards.....			6,556				6,556
Acquisition of treasury stock.....	(1,486)					(18,545)	(18,545)
Common stock cash dividends - \$0.41 per share				(71,114)			(71,114)
Balance at December 31, 2016.....	174,040	\$ 549,707	\$ 1,467,602	\$ 732,099	\$ (38,449)	\$ (589,844)	\$ 2,121,115
Net income				171,753			171,753
Other comprehensive income.....					5,475		5,475
Stock issued.....	1,130	2,525	5,578			435	8,538
Stock-based compensation awards.....			5,209				5,209
Common stock cash dividends - \$0.47 per share				(82,233)			(82,233)
Balance at December 31, 2017.....	175,170	\$ 552,232	\$ 1,478,389	\$ 821,619	\$ (32,974)	\$ (589,409)	\$ 2,229,857

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ 171,753	\$ 161,625	\$ 149,502
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	23,305	13,182	2,250
Depreciation and amortization of premises and equipment	28,096	27,403	27,605
Net amortization of investment security premiums	10,107	10,430	7,330
Deferred income tax expense	24,896	11,054	13,424
Re-measurement of net deferred tax asset.....	15,635	—	—
Investment securities gains, net.....	(9,071)	(2,550)	(9,066)
Gains on sales of mortgage loans held for sale	(13,036)	(15,685)	(13,264)
Proceeds from sales of mortgage loans held for sale	644,400	709,316	757,850
Originations of mortgage loans held for sale	(634,197)	(705,442)	(743,950)
Amortization of intangible assets.....	—	—	247
Amortization of issuance costs and discount of long-term debt	845	617	582
Stock-based compensation	5,209	6,556	5,938
Excess tax benefits from stock-based compensation	—	(964)	(201)
Increase in accrued interest receivable.....	(6,616)	(3,527)	(949)
Loss on redemption of trust preferred securities	—	—	5,626
Decrease (increase) in other assets.....	29,227	(29,940)	(22,987)
Decrease in accrued interest payable	(315)	(1,092)	(7,321)
(Decrease) increase in other liabilities	(31,412)	4,427	4,928
Total adjustments	87,073	23,785	28,042
<i>Net cash provided by operating activities</i>	<i>258,826</i>	<i>185,410</i>	<i>177,544</i>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales of securities available for sale	184,734	115,844	66,480
Proceeds from maturities and paydowns of securities available for sale.....	417,673	558,854	439,533
Purchase of securities available for sale.....	(584,921)	(782,765)	(683,839)
(Increase) decrease in short-term investments	(63,314)	1,264	130,567
Net increase in loans	(1,087,521)	(873,939)	(743,655)
Net purchases of premises and equipment	(33,092)	(19,674)	(27,113)
<i>Net cash used in investing activities</i>	<i>(1,166,441)</i>	<i>(1,000,416)</i>	<i>(818,027)</i>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in demand and savings deposits	782,525	992,253	971,312
Net increase (decrease) in time deposits	2,143	(111,706)	(206,501)
Increase in short-term borrowings.....	76,207	43,654	167,944
Additions to long-term debt	223,251	215,884	347,778
Repayments of long-term debt	(115,153)	(236,640)	(540,079)
Net proceeds from issuance of common stock.....	8,538	16,167	10,607
Excess tax benefits from stock-based compensation	—	964	201
Dividends paid.....	(80,368)	(69,382)	(65,361)
Acquisition of treasury stock.....	—	(18,545)	(50,000)
<i>Net cash provided by financing activities</i>	<i>897,143</i>	<i>832,649</i>	<i>635,901</i>
Net (decrease) increase in Cash and Due From Banks	(10,472)	17,643	(4,582)
Cash and Due From Banks at Beginning of Year.....	118,763	101,120	105,702
Cash and Due From Banks at End of Year.....	\$ 108,291	\$ 118,763	\$ 101,120
Supplemental Disclosures of Cash Flow Information			
Cash paid during period for:			
Interest.....	\$ 93,817	\$ 83,420	\$ 91,116
Income taxes.....	6,537	16,193	13,378

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business: Fulton Financial Corporation ("Parent Company") is a multi-bank financial holding company which provides a full range of banking and financial services to businesses and consumers through its six wholly owned banking subsidiaries: Fulton Bank, N.A., Fulton Bank of New Jersey, The Columbia Bank, Lafayette Ambassador Bank, FNB Bank, N.A. and Swineford National Bank. In addition, the Parent Company owns the following non-bank subsidiaries: Fulton Financial Realty Company, Central Pennsylvania Financial Corp., FFC Management, Inc., FFC Penn Square, Inc. and Fulton Insurance Services Group, Inc. Collectively, the Parent Company and its subsidiaries are referred to as the Corporation.

The Corporation's primary sources of revenue are interest income on loans, investment securities and other interest-earning assets and fee income earned on its products and services. Its expenses consist of interest expense on deposits and borrowed funds, provision for credit losses, other operating expenses and income taxes. The Corporation's primary competition is other financial services providers operating in its region. Competitors also include financial services providers located outside the Corporation's geographic market as a result of the growth in electronic delivery systems. The Corporation is subject to the regulations of certain federal and state agencies and undergoes periodic examinations by such regulatory authorities.

The Corporation offers, through its banking subsidiaries, a full range of retail and commercial banking services in Pennsylvania, Delaware, Maryland, New Jersey and Virginia. Industry diversity is the key to the economic well-being of these markets, and the Corporation is not dependent upon any single customer or industry.

Basis of Financial Statement Presentation: The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States ("U.S. GAAP") and include the accounts of the Parent Company and all wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosed amount of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. The Corporation evaluates subsequent events through the date of the filing of this report with the Securities and Exchange Commission ("SEC").

Federal Reserve Bank ("FRB") and Federal Home Loan Bank Stock: Certain of the Corporation's wholly owned banking subsidiaries are members of the FRB and Federal Home Loan Bank and are required by federal law to hold stock in these institutions according to predetermined formulas. These restricted investments are carried at cost on the consolidated balance sheets and are periodically evaluated for impairment. Each of the Corporation's subsidiary banks is a member of the Federal Home Loan Bank for the region encompassing the headquarters of the subsidiary bank. Memberships are maintained with the Atlanta, New York and Pittsburgh regional Federal Home Loan Banks (collectively referred to as the "FHLB").

Investments: Debt securities are classified as held to maturity at the time of purchase when the Corporation has both the intent and ability to hold these investments until they mature. Such debt securities are carried at cost, adjusted for amortization of premiums and accretion of discounts using the effective yield method. The Corporation does not engage in trading activities, however, since the investment portfolio serves as a source of liquidity, all debt securities and marketable equity securities are classified as available for sale. Securities available for sale are carried at estimated fair value with the related unrealized holding gains and losses reported in shareholders' equity as a component of other comprehensive income, net of tax. Realized securities gains and losses are computed using the specific identification method and are recorded on a trade date basis.

Securities are evaluated periodically to determine whether declines in value are other-than-temporary. For its investments in equity securities, most notably its investments in stocks of financial institutions, the Corporation evaluates the near-term prospects of the issuers in relation to the severity and duration of the impairment. Equity securities with fair values less than cost are considered to be other-than-temporarily impaired if the Corporation does not have the ability and intent to hold the investments for a reasonable period of time that would be sufficient for a recovery of fair value.

Impaired debt securities are determined to be other-than-temporarily impaired if the Corporation concludes at the balance sheet date that it has the intent to sell, or believes it will more likely than not be required to sell, an impaired debt security before a recovery of its amortized cost basis. Credit losses on other-than-temporarily impaired debt securities are recorded through earnings, regardless of the intent or the requirement to sell. Credit loss is measured as the difference between the present value of an impaired debt security's expected cash flows and its amortized cost. Non-credit related other-than-temporary impairment charges are recorded

as decreases to accumulated other comprehensive income as long as the Corporation has no intent or expected requirement to sell the impaired debt security before a recovery of its amortized cost basis.

Fair Value Option: The Corporation has elected to measure mortgage loans held for sale at fair value. Derivative financial instruments related to mortgage banking activities are also recorded at fair value, as detailed under the heading "Derivative Financial Instruments," below. The Corporation determines fair value for its mortgage loans held for sale based on the price that secondary market investors would pay for loans with similar characteristics, including interest rate and term, as of the date fair value is measured. Changes in fair values during the period are recorded as components of mortgage banking income on the consolidated statements of income. Interest income earned on mortgage loans held for sale is classified in interest income on the consolidated statements of income.

Loans and Revenue Recognition: Loan and lease financing receivables are stated at their principal amount outstanding, except for mortgage loans held for sale, which are carried at fair value. Interest income on loans is accrued as earned. Unearned income on lease financing receivables is recognized on a basis which approximates the effective yield method.

In general, a loan is placed on non-accrual status once it becomes 90 days delinquent as to principal or interest. In certain cases a loan may be placed on non-accrual status prior to being 90 days delinquent if there is an indication that the borrower is having difficulty making payments, or the Corporation believes it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. When interest accruals are discontinued, unpaid interest previously credited to income is reversed. Non-accrual loans may be restored to accrual status when all delinquent principal and interest has been paid currently for six consecutive months or the loan is considered secured and in the process of collection. The Corporation generally applies payments received on non-accruing loans to principal until such time as the principal is paid off, after which time any payments received are recognized as interest income. If the Corporation believes that all amounts outstanding on a non-accrual loan will ultimately be collected, payments received subsequent to its classification as a non-accrual loan are allocated between interest income and principal.

A loan that is 90 days delinquent may continue to accrue interest if the loan is both adequately secured and is in the process of collection. Past due status is determined based on contractual due dates for loan payments. An adequately secured loan is one that has collateral with a supported fair value that is sufficient to discharge the debt, and/or has an enforceable guarantee from a financially responsible party. A loan is considered to be in the process of collection if collection is proceeding through legal action or through other activities that are reasonably expected to result in repayment of the debt or restoration to current status in the near future.

Loans and lease financing receivables deemed to be a loss are written off through a charge against the allowance for loan losses. Closed-end consumer loans are generally charged off when they become 120 days past due (180 days for open-end consumer loans) if they are not adequately secured by real estate. All other loans are evaluated for possible charge-off when it is probable that the balance will not be collected, based on the ability of the borrower to pay and the value of the underlying collateral. Principal recoveries of loans previously charged off are recorded as increases to the allowance for loan losses.

Loan Origination Fees and Costs: Loan origination fees and the related direct origination costs are deferred and amortized over the life of the loan as an adjustment to interest income generally using the effective yield method. For mortgage loans sold, net loan origination fees and costs are included in the gain or loss on sale of the related loan.

Troubled Debt Restructurings ("TDRs"): Loans whose terms are modified are classified as TDRs if the Corporation grants the borrowers concessions and it is determined that those borrowers are experiencing financial difficulty. Concessions, whether negotiated or imposed by bankruptcy, granted under a TDR typically involve a temporary deferral of scheduled loan payments, an extension of a loan's stated maturity date or a reduction in the interest rate. Non-accrual TDRs can be restored to accrual status if principal and interest payments, under the modified terms, are current for six consecutive months after modification.

Allowance for Credit Losses: The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management's estimate of incurred losses in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of incurred losses in its unfunded loan commitments and other off-balance sheet credit exposures, such as letters of credit, and is recorded in other liabilities on the consolidated balance sheets. The allowance for credit losses is increased by charges to expense, through the provision for credit losses, and decreased by charge-offs, net of recoveries. Management believes that the allowance for loan losses and the reserve for unfunded lending commitments are adequate as of the balance sheet date; however, future changes to the allowance or reserve may be necessary based on changes in any of the factors discussed in the following paragraphs.

Maintaining an appropriate allowance for credit losses is dependent upon various factors, including the ability to identify potential problem loans in a timely manner. For commercial loans, commercial mortgages and construction loans to commercial borrowers,

an internal risk rating process is used. The Corporation believes that internal risk ratings are the most relevant credit quality indicator for these types of loans. The migration of loans through the various internal risk rating categories is a significant component of the allowance for credit loss methodology for these loans, which bases the probability of default on this migration. Assigning risk ratings involves judgment. The Corporation's loan review officers provide a separate assessment of risk rating accuracy. Risk ratings may be changed based on the ongoing monitoring procedures performed by loan officers or credit administration staff, or if specific loan review assessments identify a deterioration or an improvement in the loan.

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

- Pass: These loans do not currently pose undue credit risk and can range from the highest to average quality, depending on the degree of potential risk.
- Special Mention: These loans have an undue and unwarranted credit risk, but not to the point of justifying a classification of substandard. Loans in this category are currently acceptable, but are nevertheless potentially weak.
- Substandard or Lower: These loans are inadequately protected by current sound worth and paying capacity of the borrower. There exists a well-defined weakness or weaknesses that jeopardize the normal repayment of the debt.

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

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

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

All loans evaluated for impairment under FASB ASC Section 310-10-35 are measured for losses on a quarterly basis. As of December 31, 2017 and 2016, substantially all of the Corporation's impaired loans to borrowers with total outstanding loan balances greater than or equal to \$1.0 million were measured based on the estimated fair value of each loan's collateral. Collateral could be in the form of real estate, in the case of impaired commercial mortgages and construction loans, or business assets, such as accounts receivable or inventory, in the case of commercial and industrial loans. Commercial and industrial loans may also be secured by real property.

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

As of December 31, 2017 and 2016, approximately 94% and 62%, respectively, of impaired loans with principal balances greater than or equal to \$1.0 million, whose primary collateral is real estate, were measured at estimated fair value using appraisals performed by state certified third-party appraisers that had been updated within the preceding 12 months.

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

For impaired loans with principal balances greater than or equal to \$1.0 million secured by non-real estate collateral, such as accounts receivable or inventory, estimated fair values are determined based on borrower financial statements, inventory listings, accounts receivable agings or borrowing base certificates. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets. Liquidation or collection discounts are applied to these assets based upon existing loan evaluation policies.

All loans not evaluated for impairment under FASB ASC Section 310-10-35 are evaluated for impairment under FASB ASC Subtopic 450-20, using a pooled loss evaluation approach. In general, these loans include residential mortgages, home equity loans, consumer loans, and lease receivables. Accruing commercial loans, commercial mortgages and construction loans are also evaluated for impairment under FASB ASC Subtopic 450-20.

The Corporation segments its loan portfolio by general loan type, or "portfolio segments," as presented in the table under the heading, "Loans, net of unearned income," within Note 4, "Loans and Allowance for Credit Losses." Certain portfolio segments are further disaggregated and evaluated collectively for impairment based on "class segments," which are largely based on the type of collateral underlying each loan. For commercial loans, class segments include loans secured by collateral and unsecured loans. Construction loan class segments include loans secured by commercial real estate, loans to commercial borrowers secured by residential real estate and loans to individuals secured by residential real estate. Consumer loan class segments are based on collateral types and include direct consumer installment loans and indirect automobile loans.

The Corporation calculates allowance for loan loss allocation needs for loans evaluated under FASB ASC Subtopic 450-20 through the following procedures:

- The loans are segmented into pools with similar characteristics, as noted above. Commercial loans, commercial mortgages and construction loans to commercial borrowers are further segmented into separate pools based on internally assigned risk ratings. Residential mortgages, home equity loans, consumer loans, and lease receivables are further segmented into separate pools based on delinquency status.
- A loss rate is calculated for each pool through an analysis of historical losses as loans migrate through the various risk rating or delinquency categories. Estimated loss rates are based on a probability of default and a loss rate forecast.
- The loss rate is adjusted to consider qualitative factors, such as economic conditions and trends.
- The resulting adjusted loss rate is applied to the balance of the loans in the pool to arrive at the allowance allocation for the pool.

The allocation of the allowance for credit losses is reviewed to evaluate its appropriateness in relation to the overall risk profile of the loan portfolio. The Corporation considers risk factors such as: local and national economic conditions; trends in delinquencies and non-accrual loans; the diversity of borrower industry types; and the composition of the portfolio by loan type. Prior to 2017, the Corporation maintained an unallocated allowance for credit losses for factors and conditions that exist at the balance sheet date, but are not specifically identifiable, and to recognize the inherent imprecision in estimating and measuring loss exposure. In 2017, enhancements were made to allow for the impact of these factors and conditions to be quantified in the allowance allocation process. Accordingly, an unallocated allowance for credit losses is no longer necessary. This change did not have a material impact.

Premises and Equipment: Premises and equipment are stated at cost, less accumulated depreciation and amortization. The provision for depreciation and amortization is generally computed using the straight-line method over the estimated useful lives of the related assets, which are a maximum of 50 years for buildings and improvements, 8 years for furniture and 5 years for equipment. Leasehold improvements are amortized over the shorter of the useful life or the non-cancelable lease term.

Other Real Estate Owned ("OREO"): Assets acquired in settlement of mortgage loan indebtedness are recorded as OREO and are included in other assets on the consolidated balance sheets, initially at the lower of the estimated fair value of the asset, less estimated selling costs, or the carrying amount of the loan. Costs to maintain the assets and subsequent gains and losses on sales are included in other non-interest expense on the consolidated statements of income.

Mortgage Servicing Rights ("MSRs"): The estimated fair value of MSRs related to residential mortgage loans sold and serviced by the Corporation is recorded as an asset upon the sale of such loans. 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 through a discounted cash flows valuation completed by a third-party valuation expert. Significant inputs to the valuation include expected net servicing income, the discount rate and the expected lives of the underlying loans. Expected

life is based on the contractual terms of the loans, as adjusted for prepayment projections. To the extent the amortized cost of the MSR exceeds their estimated fair value, a valuation allowance is established through a charge against servicing income, included as a component of mortgage banking income on the consolidated statements of income. If subsequent valuations indicate that impairment no longer exists, the valuation allowance is reduced through an increase to servicing income.

Derivative Financial Instruments: The Corporation manages its exposure to certain interest rate and foreign currency risks through the use of derivatives. None of the Corporation's outstanding derivative contracts are designated as hedges and none are entered into for speculative purposes. Derivative instruments are carried at fair value, with changes in fair value recognized in earnings as components of non-interest income or non-interest expense on the consolidated statements of income.

Derivative contracts create counterparty credit risk with both the Corporation's customers and with institutional derivative counterparties. The Corporation manages counterparty credit risk through its credit approval processes, monitoring procedures and obtaining adequate collateral, when the Corporation determines it is appropriate to do so and in accordance with counterparty contracts.

Mortgage Banking Derivatives

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

Interest Rate Swaps

The Corporation enters into interest rate swaps with certain qualifying commercial loan customers to meet their interest rate risk management needs. The Corporation simultaneously enters into interest rate swaps with dealer counterparties, with identical notional amounts and terms. The net result of these interest rate swaps is that the customer pays a fixed rate of interest and the Corporation receives a floating rate. These interest rate swaps are derivative financial instruments and the gross fair values are recorded in other assets and other liabilities on the consolidated balance sheets, with changes in fair value during the period recorded in other non-interest expense on the consolidated statements of income. Fulton Bank, N.A. ("Fulton Bank"), the Corporation's largest banking subsidiary, exceeded \$10 billion in total assets as of December 31, 2016 and was required to clear all eligible interest rate swap contracts with a central counterparty, effective January 1, 2017. As a result, Fulton Bank became subject to the regulations of Commodity Futures Trading Commission ("CFTC") on that date.

Foreign Exchange Contracts

The Corporation enters into foreign exchange contracts to accommodate the needs of its customers. Foreign exchange contracts are commitments to buy or sell foreign currency on a specific date at a contractual price. The Corporation offsets its foreign exchange exposure with customers by entering into contracts with correspondent financial institutions to mitigate its foreign exchange risk. The Corporation also holds certain amounts of foreign currency with international correspondent banks ("Foreign Currency Nostro Accounts"). The Corporation limits the total overnight net foreign currency open positions, which is defined as an aggregate of all outstanding contracts and Foreign Currency Nostro Account balances, to \$500,000. Gross fair values are recorded in other assets and other liabilities on the consolidated balance sheets, with changes in fair values during the period recorded in other service charges and fees on the consolidated statements of income.

Balance Sheet Offsetting: Although certain financial assets and liabilities may be eligible for offset on the consolidated balance sheets because they are subject to master netting arrangements or similar agreements, the Corporation elects to not offset such qualifying assets and liabilities.

The Corporation is a party to interest rate swap transactions with financial institution counterparties and customers. Under these agreements, the Corporation has the right to net-settle multiple contracts with the same counterparty in the event of default on, or termination of, any one contract. Cash collateral is posted by the party with a net liability position in accordance with contract thresholds and can be used to settle the fair value of the interest rate swap agreements in the event of default. A daily settlement occurs through a clearing agent for changes in the fair value of centrally cleared derivatives. As a result, the total fair values of

interest rate swap derivative assets and derivative liabilities recognized on the consolidated balance sheet are not equal and offsetting.

The Corporation is also a party to foreign currency exchange contracts with financial institution counterparties, under which the Corporation has the right to net-settle multiple contracts with the same counterparty in the event of default on, or termination of, any one contract. As with interest rate swap contracts, cash collateral is posted by the party with a net liability position in accordance with contract thresholds and can be used to settle the fair value of the foreign currency exchange contracts in the event of default. For additional details, see "Note 10 - Derivative Financial Instruments."

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

Income Taxes: The Corporation accounts for income taxes in accordance with FASB ASC Topic 740, "Income Taxes" ("ASC Topic 740"). Under ASC Topic 740, deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and are measured at the prevailing enacted tax rates that will be in effect when these differences are settled or realized. ASC Topic 740 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The realizability of the net deferred tax assets is evaluated quarterly by assessing the valuation allowance and by adjusting the amount of the allowance, if necessary. The Corporation considers all available positive and negative evidence including projected future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. The evaluation of both positive and negative evidence is a requirement pursuant to ASC Topic 740 in determining whether it is more-likely-than-not the net deferred tax assets will be realized. In the event the Corporation determines that the deferred income tax assets would be realized in the future in excess of their net recorded amount, an adjustment to the valuation allowance would be recorded, which would reduce the provision for income taxes.

ASC Topic 740 also creates a single model to address uncertainty in tax positions, and clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in an enterprise's financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The liability for unrecognized tax benefits is included in other liabilities within the consolidated balance sheets at December 31, 2017 and 2016.

Stock-Based Compensation: The Corporation grants equity awards to employees, consisting of stock options, restricted stock, restricted stock units ("RSUs") and performance-based restricted stock units ("PSUs") under its Amended and Restated Equity and Cash Incentive Compensation Plan ("Employee Equity Plan"). In addition, employees may purchase stock under the Corporation's Employee Stock Purchase Plan ("ESPP").

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

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. The fair value of restricted stock, RSUs and a majority of PSUs are based on the trading price of the Corporation's stock on the date of grant. The fair value of certain PSUs are estimated through the use of the Monte Carlo valuation methodology as of the date of grant.

Equity awards issued under the Employee Equity Plan are generally granted annually and become fully vested over or after a three-year vesting period. The vesting period for non-performance-based awards represents the period during which employees are required to provide service in exchange for such awards. Equity awards under the Directors' Plan generally vest immediately upon grant. Certain events, as defined in the Employee Equity Plan and the Directors' Plan, result in the acceleration of the vesting of equity awards. Restricted stock, RSUs and PSUs earn dividends during the vesting period, which are forfeitable if the awards do not vest.

The fair value of stock options, restricted stock and RSUs granted to employees is recognized as compensation expense over the vesting period for such awards. Compensation expense for PSUs is also recognized over the vesting period, however, compensation expense for PSUs may vary based on the expectations for actual performance relative to defined performance measures.

Net Income Per Share: Basic net income per common share is calculated as net income divided by the weighted average number of shares outstanding.

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
		(in thousands)	
Weighted average common shares outstanding (basic)	174,721	173,325	175,721
Impact of common stock equivalents.....	1,211	1,093	1,053
Weighted average common shares outstanding (diluted).....	<u>175,932</u>	<u>174,418</u>	<u>176,774</u>

In 2016 and 2015, 534,000 and 1.7 million stock options, respectively, were excluded from the diluted earnings per share computation as their effect would have been anti-dilutive. There were no stock options excluded from the diluted net income per share computation in 2017.

Disclosures about Segments of an Enterprise and Related Information: The Corporation does not have any operating segments which require disclosure of additional information. While the Corporation owns six separate banks, each engages in similar activities, provides similar products and services, and operates in the same general geographic area. The Corporation's non-banking activities are immaterial and, therefore, separate information is not required to be disclosed.

Financial Guarantees: Financial guarantees, which consist primarily of standby and commercial letters of credit, are accounted for by recognizing a liability equal to the fair value of the guarantees and crediting the liability to income over the term of the guarantee. Fair value is estimated based on the fees currently charged to enter into similar agreements with similar terms.

Business Combinations and Intangible Assets: The Corporation accounts for its acquisitions using the purchase accounting method. Purchase accounting requires that all assets acquired and liabilities assumed, including certain intangible assets that must be recognized, be recorded at their estimated fair values as of the acquisition date. Any purchase price exceeding the fair value of net assets acquired is recorded as goodwill.

Goodwill is not amortized to expense, but is tested for impairment at least annually. A quantitative annual impairment test is not required if, based on a qualitative analysis, the Corporation determines that the existence of events and circumstances indicate that it is more likely than not that goodwill is not impaired. Write-downs of the balance, if necessary as a result of the impairment test, are charged to expense in the period in which goodwill is determined to be impaired. The Corporation performs its annual test of goodwill impairment as of October 31st of each year. If certain events occur which indicate goodwill might be impaired between annual tests, goodwill must be tested when such events occur. Based on the results of its annual impairment tests, the Corporation concluded that there was no impairment in 2017, 2016 or 2015. See "Note 6 - Goodwill and Intangible Assets," for additional details.

Intangible assets are amortized over their estimated lives. Some intangible assets have indefinite lives and are, therefore, not amortized. All intangible assets must be evaluated for impairment if certain events occur. Any impairment write-downs are recognized as non-interest expense on the consolidated statements of income.

Variable Interest Entities ("VIEs"): FASB ASC Topic 810 provides guidance on when to consolidate certain VIEs in the financial statements of the Corporation. VIEs are entities in which equity investors do not have a controlling financial interest or do not have sufficient equity at risk for the entity to finance activities without additional financial support from other parties. VIEs are assessed for consolidation under ASC Topic 810 when the Corporation holds variable interests in these entities. The Corporation consolidates VIEs when it is deemed to be the primary beneficiary. The primary beneficiary of a VIE is determined to be the party

that has the power to make decisions that most significantly affect the economic performance of the VIE and has the obligation to absorb losses or the right to receive benefits that in either case could potentially be significant to the VIE.

Subsidiary Trusts

The Parent Company owns all of the common stock of three subsidiary trusts, which have issued securities (Trust Preferred Securities) in conjunction with the Parent Company issuing junior subordinated deferrable interest debentures to the trusts. The terms of the junior subordinated deferrable interest debentures are the same as the terms of the Trust Preferred Securities ("TruPS"). The Parent Company's obligations under the debentures constitute a full and unconditional guarantee by the Parent Company of the obligations of the trusts. The provisions of ASC Topic 810 related to subsidiary trusts, as interpreted by the SEC, disallow consolidation of subsidiary trusts in the financial statements of the Corporation. As a result, TruPS are not included on the Corporation's consolidated balance sheets. The junior subordinated debentures issued by the Parent Company to the subsidiary trusts, which have the same total balance and rate as the combined equity securities and TruPS issued by the subsidiary trusts, remain in long-term debt. See "Note 9 - Short-Term Borrowings and Long-Term Debt," for additional information.

Tax Credit Investments

The Corporation makes investments in certain community development projects that generate tax credits under various federal programs, including qualified affordable housing projects, New Markets Tax Credit ("NMTC") projects and historic rehabilitation projects (collectively, "Tax Credit Investments"). These investments are made throughout the Corporation's market area as a means of supporting the communities it serves. The Corporation typically acts as a limited partner or member of a limited liability company in its Tax Credit Investments and does not exert control over the operating or financial policies of the partnership or limited liability company. Tax credits earned are subject to recapture by federal taxing authorities based upon compliance requirements to be met at the project level. As of December 31, 2017 and 2016, the Corporation's Tax Credit Investments, included in other assets on the consolidated balance sheets and representing total committed equity investments, totaled \$205.8 million and \$186.4 million, respectively. As of December 31, 2017, the Corporation had future funding commitments, included in other liabilities on the consolidated balance sheets, of approximately \$68.8 million.

Because the Corporation owns 100% of the equity interests in its New Markets Tax Credit investments, these investments were consolidated based on FASB ASC Topic 810 as of December 31, 2017 and 2016. Investments in affordable housing projects were not consolidated based on management's assessment of the provisions of FASB ASC Topic 810.

Tax Credit Investments are tested for impairment when events or changes in circumstances indicate that it is more likely than not that the carrying amount of the investment will not be realized. An impairment loss is measured as the amount by which the current carrying value exceeds its aggregated remaining value of the tax benefits of the investment. There were no impairment losses recognized for the Corporation's Tax Credit Investments in 2017, 2016 or 2015.

Amortization expense for qualified affordable housing projects is recorded as a component of income taxes on the consolidated statements of income. This expense, net of federal tax benefits, totaled \$13.4 million, \$11.2 million and \$9.8 million in 2017, 2016 and 2015, respectively.

Amortization expense for NMTC and historical rehabilitation investments entered into prior to 2017 was recorded as a component of income taxes on the consolidated statements of income. The expense on these prior investments, net of federal tax benefits, totaled \$2.2 million, \$3.1 million and \$2.6 million in 2017, 2016 and 2015, respectively. Amortization expense for these types of investments entered into after 2016 is recorded in non-interest expense on the consolidation statement of income. This expense totaled \$11.0 million in 2017.

The income tax credits earned on Tax Credit Investments, recorded as a reduction to income taxes on the consolidated statements of income, were \$41.4 million in 2017, \$31.8 million in 2016 and \$26.0 million in 2015.

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

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

The Corporation has categorized all assets and liabilities required to be measured at fair value on both a recurring and nonrecurring basis into the above three levels. See "Note 18 - Fair Value Measurements," for additional details.

Recently Adopted Accounting Standards: In March 2016, the FASB issued ASC Update 2016-09, "Stock Compensation: Improvements to Employee Share-Based Payment Accounting." The purpose of this standards update is to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liability, and classification on the statement of cash flows. ASC Update 2016-09 was effective for interim and annual reporting periods beginning after December 15, 2016, with early adoption permitted. For the Corporation, this standards update was effective with its March 31, 2017 quarterly report on Form 10-Q. As a result of adopting ASC Update 2016-09, excess tax benefits from stock-based compensation totaling \$1.3 million were recognized in 2017 as a reduction to income taxes, rather than as an adjustment to additional paid-in capital.

Recently Issued Accounting Standards: In May 2014, the FASB issued ASC Update 2014-09, "Revenue from Contracts with Customers." This standards update establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle prescribed by this standards update is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard applies to all contracts with customers, except those that are within the scope of other topics in the FASB ASC. The standard also requires significantly expanded disclosures about revenue recognition. The FASB has issued amendments to this standard (ASC Updates 2016-08, 2016-10, 2016-11, 2016-12 and 2017-13). These amendments provide further clarification to the standard. For public business entities, ASC Update 2014-09 is effective for interim and annual reporting periods beginning after December 15, 2017. For the Corporation, this standards update is effective with its March 31, 2018 quarterly report on Form 10-Q. The Corporation evaluated the impact of the adoption of ASC Update 2014-09 on its consolidated financial statements and did not identify any significant changes in the timing of revenue recognition as a result of this amended guidance. The Corporation adopted this standards update on January 1, 2018, under the modified retrospective approach, and the adoption of ASC Update 2014-09 did not have a material impact on its consolidated financial statements.

In January 2016, the FASB issued ASC Update 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." ASC Update 2016-01 provides guidance regarding the income statement impact of equity investments held by an entity and the recognition of changes in fair value of financial liabilities when the fair value option is elected. This standards update will require equity investments to be measured at fair value, with changes recorded in net income. ASC Update 2016-01 is effective for public business entities' annual and interim reporting periods beginning after December 15, 2017, with earlier adoption permitted. The Corporation adopted this standards update on January 1, 2018 and the adoption of ASC Update 2016-01 did not have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASC Update 2016-02, "Leases." This standards update requires a lessee to recognize the assets and liabilities that arise from all leases with a term greater than 12 months. The core principle requires the lessee to recognize a liability to make lease payments and a "right-of-use" asset. The accounting applied by the lessor is relatively unchanged. The standards update also requires expanded qualitative and quantitative disclosures. In September of 2017, the FASB issued clarifying guidance to this standard (ASC Update 2017-13). For public business entities, ASC Update 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018. ASC Update 2016-02 mandates a modified retrospective transition for all entities, which requires restatement of all comparative periods in the year of adoption. Early adoption is permitted. For the Corporation, this standards update is effective with its March 31, 2019 quarterly report on Form 10-Q. The Corporation is currently evaluating the impact of the adoption of ASC Update 2016-02 on its consolidated financial statements. The Corporation currently operates a number of branches that are leased, with the leases accounted for as operating leases that are not recognized on the consolidated balance sheet. Under ASC Update 2016-02, right-of-use assets and lease liabilities will need to be recognized on the consolidated balance sheet for these branches, which will also have an impact on regulatory capital ratios. The recognition of operating leases on the consolidated balance sheet is expected to be the most significant impact of the adoption of this standards update.

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

In August 2016, the FASB issued ASC Update 2016-15, "Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments." This standards update provides guidance regarding the presentation of certain cash receipts and cash payments in the statement of cash flows, addressing eight specific cash flow classification issues, in order to reduce existing diversity in practice. ASC Update 2016-15 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted. The Corporation intends to adopt this standards update effective with its March 31, 2018 quarterly report on Form 10-Q and does not expect the adoption of ASC Update 2016-15 to have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASC Update 2016-18, "Statement of Cash Flows - Restricted Cash." This standards update provides guidance regarding the presentation of restricted cash in the statement of cash flows. The update requires companies to include amounts generally described as restricted cash and restricted cash equivalents, along with cash and cash equivalents, when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. It also requires an entity to disclose the nature of the restrictions on cash and cash equivalents. ASC Update 2016-18 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted. The Corporation intends to adopt this standards update effective with its March 31, 2018 quarterly report on Form 10-Q and does not expect the adoption of ASC Update 2016-18 to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASC Update 2017-04, "Intangibles - Goodwill and Other." This standards update eliminates Step 2 of the goodwill impairment test which measures the impairment amount. Identifying and measuring impairment will take place in a single quantitative step. In addition, no separate qualitative assessment for reporting units with zero or negative carrying amount is required. Entities must disclose the existence of these reporting units and the amount of goodwill allocated to them. This update should be applied on a prospective basis, and an entity is required to disclose the nature of and reason for the change in accounting principle upon transition. ASC Update 2017-04 is effective for annual or interim goodwill impairment tests in reporting periods beginning after December 15, 2019. Early adoption is permitted. The Corporation intends to adopt this standards update effective with its 2020 goodwill impairment test and does not expect the adoption of ASC Update 2017-04 to have a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASC Update 2017-07, "Improving the Presentation of Net Periodic Pension Costs and Net Periodic Benefit Cost." This standards update requires a company to present service cost separately from the other components of net benefit cost. In addition, the update provides explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. ASC Update 2017-07 is effective for annual or interim reporting periods beginning after December 15, 2017. Early adoption is permitted. The Corporation intends to adopt this standards update effective with its March 31, 2018 quarterly report on Form 10-Q and does not expect the adoption of ASC Update 2017-07 to have a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASC Update 2017-08, "Premium Amortization on Purchased Callable Debt Securities." This standards update requires that a company amortize the premium on callable debt securities to the earliest call date versus current U.S. GAAP, which requires amortization over the contractual life of the securities. The amortization period for callable debt securities purchased at a discount would not be impacted by the new accounting standards update. This amendment is to be adopted on a modified retrospective basis with a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. ASC Update 2017-08 is effective for annual or interim reporting periods beginning after December 15, 2018. Early adoption is permitted. The Corporation intends to adopt this standards update effective with its March 31, 2019 quarterly report on Form 10-Q and does not expect the adoption of ASC Update 2017-08 to have a material impact on its consolidated financial statements.

In February 2018, the FASB issued ASC Update 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This standards update permits a reclassification from accumulated other comprehensive income to retained earnings of the stranded tax effects resulting from the application of the new federal corporate income tax rate. ASC Update 2018-02 is effective for annual or interim reporting periods beginning after December 15, 2018. Early adoption is permitted. The Corporation intends to adopt this standards update effective with its March 31, 2018 quarterly report on Form 10-Q and does not expect the adoption of ASC Update 2018-02 to have a material impact on its consolidated financial statements.

Reclassifications: Certain amounts in the 2016 and 2015 consolidated financial statements and notes have been reclassified to conform to the 2017 presentation.

NOTE 2 – RESTRICTIONS ON CASH AND DUE FROM BANKS

The Corporation's subsidiary banks are required to maintain reserves against their deposit liabilities. These reserves are in the form of cash and balances with the FRB, included in interest-bearing deposits with other banks. The amounts of such reserves as of December 31, 2017 and 2016 were \$124.4 million and \$113.3 million, respectively.

NOTE 3 – INVESTMENT SECURITIES

The following tables present the amortized cost and estimated fair values of investment securities, which were all classified as available for sale, as of December 31:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
2017				
U.S. Government sponsored agency securities	\$ 5,962	\$ 2	\$ (26)	\$ 5,938
State and municipal securities	405,860	5,638	(2,549)	408,949
Corporate debt securities	96,353	2,832	(1,876)	97,309
Collateralized mortgage obligations.....	611,927	491	(9,795)	602,623
Residential mortgage-backed securities	1,132,080	3,957	(15,241)	1,120,796
Commercial mortgage-backed securities	215,351	—	(2,596)	212,755
Auction rate securities	107,410	—	(8,742)	98,668
Total debt securities.....	2,574,943	12,920	(40,825)	2,547,038
Equity securities	776	142	—	918
Total.....	<u>\$ 2,575,719</u>	<u>\$ 13,062</u>	<u>\$ (40,825)</u>	<u>\$ 2,547,956</u>
2016				
U.S. Government sponsored agency securities	\$ 132	\$ 2	\$ —	\$ 134
State and municipal securities	405,274	2,043	(15,676)	391,641
Corporate debt securities	112,016	1,978	(4,585)	109,409
Collateralized mortgage obligations.....	604,095	1,943	(12,178)	593,860
Residential mortgage-backed securities	1,328,192	6,546	(16,900)	1,317,838
Commercial mortgage-backed securities	25,100	—	(537)	24,563
Auction rate securities	107,215	—	(9,959)	97,256
Total debt securities.....	2,582,024	12,512	(59,835)	2,534,701
Equity securities	12,231	12,295	—	24,526
Total.....	<u>\$ 2,594,255</u>	<u>\$ 24,807</u>	<u>\$ (59,835)</u>	<u>\$ 2,559,227</u>

Securities carried at \$1.8 billion at both December 31, 2017 and 2016 were pledged as collateral to secure public and trust deposits and customer repurchase agreements.

The amortized cost and estimated fair values of debt securities as of December 31, 2017, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
	(in thousands)	
Due in one year or less.....	\$ 16,837	\$ 16,920
Due from one year to five years	33,191	33,565
Due from five years to ten years.....	112,181	113,164
Due after ten years	453,376	447,215
	<u>615,585</u>	<u>610,864</u>
Residential mortgage-backed securities ⁽¹⁾	1,132,080	1,120,796
Commercial mortgage-backed securities ⁽¹⁾	215,351	212,755
Collateralized mortgage obligations ⁽¹⁾	611,927	602,623
Total debt securities.....	<u>\$ 2,574,943</u>	<u>\$ 2,547,038</u>

⁽¹⁾ Maturities for mortgage-backed securities and collateralized mortgage obligations are dependent upon the interest rate environment and prepayments on the underlying loans.

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

	Gross Realized Gains	Gross Realized Losses	Net Gains (Losses)
	(in thousands)		
2017:			
Equity securities.....	\$ 13,558	\$ —	\$ 13,558
Debt securities.....	315	(4,802)	(4,487)
Total	<u>\$ 13,873</u>	<u>\$ (4,802)</u>	<u>\$ 9,071</u>
2016:			
Equity securities.....	\$ 2,005	\$ (10)	\$ 1,995
Debt securities.....	581	(26)	555
Total	<u>\$ 2,586</u>	<u>\$ (36)</u>	<u>\$ 2,550</u>
2015:			
Equity securities.....	\$ 6,496	\$ (1)	\$ 6,495
Debt securities.....	2,571	—	2,571
Total	<u>\$ 9,067</u>	<u>\$ (1)</u>	<u>\$ 9,066</u>

The following table presents a summary of the cumulative credit related other-than-temporary impairment charges, recognized as components of earnings, for debt securities held by the Corporation at December 31:

	2017	2016	2015
	(in thousands)		
Balance of cumulative credit losses on debt securities, beginning of year	\$ (11,510)	\$ (11,510)	\$ (16,242)
Reductions for securities sold during the period	—	—	4,730
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	—	—	2
Balance of cumulative credit losses on debt securities, end of year	<u>\$ (11,510)</u>	<u>\$ (11,510)</u>	<u>\$ (11,510)</u>

The credit related other-than-temporary impairment charges for debt securities were determined based on expected cash flows models.

The following table presents the gross unrealized losses and estimated fair values of investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, as of December 31, 2017. There were no gross unrealized losses on equity securities as of December 31, 2017.

	Less Than 12 months		12 Months or Longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(in thousands)					
U.S. Government sponsored agency securities	\$ 5,830	\$ (26)	\$ —	\$ —	\$ 5,830	\$ (26)
State and municipal securities ..	11,650	(50)	118,297	(2,499)	129,947	(2,549)
Corporate debt securities	4,544	(48)	32,163	(1,828)	36,707	(1,876)
Collateralized mortgage obligations.....	303,932	(2,408)	187,690	(7,387)	491,622	(9,795)
Residential mortgage-backed securities.....	511,378	(4,348)	500,375	(10,893)	1,011,753	(15,241)
Commercial mortgage-backed securities.....	190,985	(2,118)	21,770	(478)	212,755	(2,596)
Auction rate securities	—	—	98,668	(8,742)	98,668	(8,742)
Total.....	<u>\$ 1,028,319</u>	<u>\$ (8,998)</u>	<u>\$ 958,963</u>	<u>\$ (31,827)</u>	<u>\$ 1,987,282</u>	<u>\$ (40,825)</u>

For comparative purposes, the following table presents gross unrealized losses and the estimated fair value of investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2016.

	Less Than 12 months		12 Months or Longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(in thousands)					
State and municipal securities ..	\$ 247,509	\$ (15,676)	\$ —	\$ —	\$ 247,509	\$ (15,676)
Corporate debt securities	11,922	(110)	34,629	(4,475)	46,551	(4,585)
Collateralized mortgage obligations.....	166,905	(3,899)	258,237	(8,279)	425,142	(12,178)
Mortgage-backed securities.....	1,137,510	(17,437)	—	—	1,137,510	(17,437)
Auction rate securities	—	—	97,256	(9,959)	97,256	(9,959)
Total.....	<u>\$ 1,563,846</u>	<u>\$ (37,122)</u>	<u>\$ 390,122</u>	<u>\$ (22,713)</u>	<u>\$ 1,953,968</u>	<u>\$ (59,835)</u>

The Corporation's collateralized mortgage obligations and mortgage-backed securities have contractual terms that generally do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the decline in fair

value of these securities is attributable to changes in interest rates and not credit quality, and because the Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, the Corporation did not consider these investments to be other-than-temporarily impaired as of December 31, 2017.

As of December 31, 2017, all student loan auction rate certificates ("ARCs") were rated above investment grade. All of the loans underlying the ARCs have principal payments which are guaranteed by the federal government. All of the loans were current and making scheduled payments and, based on management's evaluations, were not subject to any other-than-temporary impairment charges as of December 31, 2017. The Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell these securities prior to a recovery of their fair value to amortized cost, which may be at maturity.

The majority of the Corporation's available for sale corporate debt securities are issued by financial institutions. The following table presents the amortized cost and estimated fair values of corporate debt securities as of December 31:

	2017		2016	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in thousands)			
Single-issuer trust preferred securities	\$ 31,335	\$ 30,703	\$ 43,746	\$ 39,829
Subordinated debt	49,013	49,533	46,231	46,723
Senior notes	12,031	12,392	18,037	18,433
Pooled trust preferred securities	—	707	—	422
Corporate debt securities issued by financial institutions	92,379	93,335	108,014	105,407
Other corporate debt securities	3,974	3,974	4,002	4,002
Available for sale corporate debt securities.....	<u>\$ 96,353</u>	<u>\$ 97,309</u>	<u>\$ 112,016</u>	<u>\$ 109,409</u>

Single-issuer trust preferred securities had an unrealized loss of \$632,000 as of December 31, 2017. Four of the 18 single-issuer trust preferred securities held were rated below investment grade by at least one ratings agency, with an amortized cost of \$4.9 million and an estimated fair value of \$4.7 million as of December 31, 2017. All of the single-issuer trust preferred securities rated below investment grade were rated "BB" or "Ba." Two single-issuer trust preferred securities with an amortized cost of \$3.8 million and an estimated fair value of \$3.1 million as of December 31, 2017 were not rated by any ratings agency.

Based on management's evaluations, no corporate debt securities were subject to any other-than-temporary impairment charges as of December 31, 2017. The Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, which may be at maturity.

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loans, net of unearned income

Loans, net of unearned income are summarized as follows as of December 31:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
Real estate – commercial mortgage	\$ 6,364,804	\$ 6,018,582
Commercial – industrial, financial and agricultural	4,300,297	4,087,486
Real estate – residential mortgage	1,954,711	1,601,994
Real estate – home equity	1,559,719	1,625,115
Real estate – construction	1,006,935	843,649
Consumer	313,783	291,470
Leasing and other	291,556	246,704
Overdrafts	4,113	3,662
Loans, gross of unearned income	<u>15,795,918</u>	<u>14,718,662</u>
Unearned income	<u>(27,671)</u>	<u>(19,390)</u>
Loans, net of unearned income	<u>\$ 15,768,247</u>	<u>\$ 14,699,272</u>

The Corporation has extended credit to the officers and directors of the Corporation and to their associates. These related-party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collection. The aggregate dollar amount of these loans, including unadvanced commitments, was \$113.6 million and \$154.4 million as of December 31, 2017 and 2016, respectively. During 2017, additions totaled \$4.9 million and repayments totaled \$45.8 million in related-party loans.

The total portfolio of mortgage loans serviced by the Corporation for unrelated third parties was \$4.6 billion and \$4.7 billion as of December 31, 2017 and 2016, respectively.

Allowance for Credit Losses

The following table presents the components of the allowance for credit losses as of December 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(in thousands)		
Allowance for loan losses	\$ 169,910	\$ 168,679	\$ 169,054
Reserve for unfunded lending commitments	6,174	2,646	2,358
Allowance for credit losses	<u>\$ 176,084</u>	<u>\$ 171,325</u>	<u>\$ 171,412</u>

The following table presents the activity in the allowance for credit losses for the years ended December 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(in thousands)		
Balance at beginning of year	\$ 171,325	\$ 171,412	\$ 185,931
Loans charged off	(33,290)	(33,927)	(32,157)
Recoveries of loans previously charged off	14,744	20,658	15,388
Net loans charged off	<u>(18,546)</u>	<u>(13,269)</u>	<u>(16,769)</u>
Provision for credit losses	23,305	13,182	2,250
Balance at end of year	<u>\$ 176,084</u>	<u>\$ 171,325</u>	<u>\$ 171,412</u>

The following table presents the activity in the allowance for loan losses by portfolio segment for the years ended December 31 and loans, net of unearned income, and their related allowance for loan losses, by portfolio segment, as of December 31:

	Real Estate - Commercial Mortgage	Commercial - Industrial, Financial and Agricultural	Real Estate - Home Equity	Real Estate - Residential Mortgage	Real Estate - Construction	Consumer	Leasing and other and Overdrafts	Unallocated	Total
	(in thousands)								
Balance at December 31, 2015.....	\$ 47,866	\$ 57,098	\$ 22,405	\$ 21,375	\$ 6,529	\$ 2,585	\$ 2,468	\$ 8,728	\$ 169,054
Loans charged off.....	(3,580)	(15,276)	(4,912)	(2,326)	(1,218)	(2,800)	(3,815)	—	(33,927)
Recoveries of loans previously charged off.....	3,373	8,981	1,171	1,072	3,924	1,295	842	—	20,658
Net loans charged off.....	(207)	(6,295)	(3,741)	(1,254)	2,706	(1,505)	(2,973)	—	(13,269)
Provision for loan losses ⁽¹⁾	(817)	3,550	8,137	2,808	(2,780)	2,494	3,697	(4,195)	12,894
Balance at December 31, 2016.....	46,842	54,353	26,801	22,929	6,455	3,574	3,192	4,533	168,679
Loans charged off.....	(2,169)	(19,067)	(2,340)	(687)	(3,765)	(2,227)	(3,035)	—	(33,290)
Recoveries of loans previously charged off.....	1,668	7,771	813	786	1,582	1,156	968	—	14,744
Net loans charged off.....	(501)	(11,296)	(1,527)	99	(2,183)	(1,071)	(2,067)	—	(18,546)
Provision for loan losses ⁽¹⁾	12,452	23,223	(7,147)	(6,940)	2,348	(458)	832	(4,533)	19,777
Balance at December 31, 2017.....	\$ 58,793	\$ 66,280	\$ 18,127	\$ 16,088	\$ 6,620	\$ 2,045	\$ 1,957	\$ —	\$ 169,910

Allowance for loan losses at December 31, 2017

Evaluated for impairment under FASB ASC Subtopic 450-20.....	\$ 50,681	\$ 54,874	\$ 7,003	\$ 6,193	\$ 5,653	\$ 2,028	\$ 1,957	\$ —	\$ 128,389
Evaluated for impairment under FASB ASC Section 310-10-35.....	8,112	11,406	11,124	9,895	967	17	—	N/A	41,521
	\$ 58,793	\$ 66,280	\$ 18,127	\$ 16,088	\$ 6,620	\$ 2,045	\$ 1,957	\$ —	\$ 169,910

Loans, net of unearned income at December 31, 2017

Evaluated for impairment under FASB ASC Subtopic 450-20.....	\$ 6,316,023	\$ 4,236,572	\$ 1,535,026	\$ 1,913,004	\$ 994,738	\$ 313,757	\$ 267,998	N/A	\$ 15,577,118
Evaluated for impairment under FASB ASC Section 310-10-35.....	48,781	63,725	24,693	41,707	12,197	26	—	N/A	191,129
	\$ 6,364,804	\$ 4,300,297	\$ 1,559,719	\$ 1,954,711	\$ 1,006,935	\$ 313,783	\$ 267,998	N/A	\$ 15,768,247

Allowance for loan losses at December 31, 2016

Evaluated for impairment under FASB ASC Subtopic 450-20.....	\$ 36,680	\$ 40,700	\$ 17,290	\$ 11,032	\$ 4,587	\$ 3,548	\$ 3,192	\$ 4,533	\$ 121,562
Evaluated for impairment under FASB ASC Section 310-10-35.....	10,162	13,653	9,511	11,897	1,868	26	—	N/A	47,117
	\$ 46,842	\$ 54,353	\$ 26,801	\$ 22,929	\$ 6,455	\$ 3,574	\$ 3,192	\$ 4,533	\$ 168,679

Loans, net of unearned income at December 31, 2016

Evaluated for impairment under FASB ASC Subtopic 450-20.....	\$ 5,963,689	\$ 4,038,511	\$ 1,605,910	\$ 1,555,946	\$ 833,117	\$ 291,430	\$ 230,976	N/A	\$ 14,519,579
Evaluated for impairment under FASB ASC Section 310-10-35.....	54,893	48,975	19,205	46,048	10,532	40	—	N/A	179,693
	\$ 6,018,582	\$ 4,087,486	\$ 1,625,115	\$ 1,601,994	\$ 843,649	\$ 291,470	\$ 230,976	N/A	\$ 14,699,272

- (1) For the year ended December 31, 2017, the provision for loan losses excluded a \$3.5 million increase in the reserve for unfunded lending commitments. The total provision for credit losses, comprised of allocations for both funded and unfunded loans, was \$23.3 million for the year ended December 31, 2017. For the year ended December 31, 2016, the provision for loan losses excluded a \$288,000 increase in the reserve for unfunded lending commitments. The total provision for credit losses was \$13.2 million for the year ended December 31, 2016.

N/A – Not applicable.

Impaired Loans

The following table presents total impaired loans by class segment as of December 31:

	2017			2016		
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Unpaid Principal Balance	Recorded Investment	Related Allowance
	(in thousands)					
<u>With no related allowance recorded:</u>						
Real estate - commercial mortgage	\$ 26,728	\$ 22,886	\$ —	\$ 28,757	\$ 25,447	\$ —
Commercial - secured.....	44,936	39,550	—	29,296	25,526	—
Real estate - residential mortgage	4,575	4,575	—	4,689	4,689	—
Construction - commercial residential ...	12,477	8,100	—	6,271	4,795	—
	88,716	75,111		69,013	60,457	
<u>With a related allowance recorded:</u>						
Real estate - commercial mortgage	33,710	25,895	8,112	37,132	29,446	10,162
Commercial - secured.....	28,819	23,442	11,013	27,767	22,626	13,198
Commercial - unsecured.....	997	733	393	1,122	823	455
Real estate - home equity	28,282	24,693	11,124	23,971	19,205	9,511
Real estate - residential mortgage	42,597	37,132	9,895	48,885	41,359	11,897
Construction - commercial residential ...	6,846	3,667	813	10,103	4,206	1,300
Construction - commercial.....	45	19	7	681	435	145
Construction - other.....	417	411	147	1,096	1,096	423
Consumer - indirect.....	11	11	7	19	19	12
Consumer - direct.....	15	15	10	21	21	14
	141,739	116,018	41,521	150,797	119,236	47,117
Total.....	\$ 230,455	\$ 191,129	\$ 41,521	\$ 219,810	\$ 179,693	\$ 47,117

As of December 31, 2017 and 2016, there were \$75.1 million and \$60.5 million, respectively, of impaired loans that did not have a related allowance for loan loss. The estimated fair values of the collateral securing these loans exceeded their carrying amount, or the loans have been charged down to realizable collateral values. Accordingly, no specific valuation allowance was considered to be necessary.

The following table presents average impaired loans, by class segment, for the years ended December 31:

	2017		2016		2015	
	Average Recorded Investment	Interest Income Recognized ⁽¹⁾	Average Recorded Investment	Interest Income Recognized ⁽¹⁾	Average Recorded Investment	Interest Income Recognized ⁽¹⁾
	(in thousands)					
<u>With no related allowance recorded:</u>						
Real estate - commercial mortgage	\$ 22,793	\$ 281	\$ 24,232	\$ 294	\$ 25,345	\$ 315
Commercial - secured	31,357	182	19,825	104	15,654	97
Commercial - unsecured	—	—	—	—	17	—
Real estate - residential mortgage	4,631	107	5,598	126	5,389	124
Construction - commercial residential	7,016	12	6,285	48	11,685	148
Construction - commercial	239	—	—	—	915	—
	66,036	582	55,940	572	59,005	684
<u>With a related allowance recorded:</u>						
Real estate - commercial mortgage	27,193	338	31,737	384	39,232	475
Commercial - secured	23,321	135	25,857	130	25,660	150
Commercial - unsecured	791	2	887	4	1,749	6
Real estate - home equity	21,704	534	17,912	285	13,887	144
Real estate - residential mortgage	39,093	903	42,191	908	46,252	1,041
Construction - commercial residential	5,051	11	5,295	41	6,455	79
Construction - commercial	152	—	524	—	931	—
Construction - other	957	—	682	—	263	—
Consumer - indirect	15	1	15	1	16	1
Consumer - direct	18	1	18	1	17	1
Leasing, other and overdrafts	285	—	854	—	285	—
	118,580	1,925	125,972	1,754	134,747	1,897
Total	\$ 184,616	\$ 2,507	\$ 181,912	\$ 2,326	\$ 193,752	\$ 2,581

(1) Interest income recognized for the years ended December 31, 2017, 2016 and 2015 represents amounts earned on accruing TDRs. Impaired loans consist of loans on non-accrual status and accruing TDRs.

Credit Quality Indicators and Non-performing Assets

The following table presents internal credit risk ratings as of December 31:

	Pass		Special Mention		Substandard or Lower		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
(dollars in thousands)								
Real estate - commercial mortgage	\$ 6,066,396	\$ 5,763,122	\$ 147,604	\$ 132,484	\$ 150,804	\$ 122,976	\$ 6,364,804	\$ 6,018,582
Commercial - secured	3,831,485	3,686,152	121,842	128,873	179,113	118,527	4,132,440	3,933,552
Commercial -unsecured.....	159,620	145,922	5,478	4,481	2,759	3,531	167,857	153,934
Total commercial - industrial, financial and agricultural...	3,991,105	3,832,074	127,320	133,354	181,872	122,058	4,300,297	4,087,486
Construction - commercial residential.....	143,759	113,570	5,259	15,447	14,084	13,172	163,102	142,189
Construction - commercial	761,218	635,963	846	3,412	3,752	5,115	765,816	644,490
Total real estate - construction (excluding construction - other).....	904,977	749,533	6,105	18,859	17,836	18,287	928,918	786,679
Total	\$ 10,962,478	\$ 10,344,729	\$ 281,029	\$ 284,697	\$ 350,512	\$ 263,321	\$ 11,594,019	\$ 10,892,747
% of Total.....	94.6%	95.0%	2.4%	2.6%	3.0%	2.4%	100.0%	100.0%

The following table presents delinquency and non-performing status for loans that do not have internal credit risk ratings, by class segment, as of December 31:

	Performing		Delinquent ⁽¹⁾		Non-performing ⁽²⁾		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
(dollars in thousands)								
Real estate - home equity	\$ 1,535,557	\$ 1,602,687	\$ 12,655	\$ 9,274	\$ 11,507	\$ 13,154	\$ 1,559,719	\$ 1,625,115
Real estate - residential mortgage	1,914,888	1,557,995	18,852	20,344	20,971	23,655	1,954,711	1,601,994
Real estate - construction - other.	77,403	55,874	203	—	411	1,096	78,017	56,970
Consumer - direct.....	54,828	93,572	315	1,752	70	1,563	55,213	96,887
Consumer - indirect.....	254,663	190,656	3,681	3,599	226	328	258,570	194,583
Total consumer	309,491	284,228	3,996	5,351	296	1,891	313,783	291,470
Leasing, other and overdrafts.....	267,111	229,591	855	1,068	32	317	267,998	230,976
Total	\$ 4,104,450	\$ 3,730,375	\$ 36,561	\$ 36,037	\$ 33,217	\$ 40,113	\$ 4,174,228	\$ 3,806,525
% of Total.....	98.3%	98.0%	0.9%	0.9%	0.8%	1.1%	100.0%	100.0%

(1) Includes all accruing loans 30 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 total non-performing assets as of December 31:

	2017	2016
(in thousands)		
Non-accrual loans	\$ 124,749	\$ 120,133
Loans 90 days or more past due and still accruing	10,010	11,505
Total non-performing loans	134,759	131,638
Other real estate owned	9,823	12,815
Total non-performing assets	\$ 144,582	\$ 144,453

The following table presents past due status and non-accrual loans, by portfolio segment and class segment, as of December 31:

2017								
	30-59 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.....	\$ 9,456	\$ 4,223	\$ 625	\$ 34,822	\$ 35,447	\$ 49,126	\$ 6,315,678	\$ 6,364,804
Commercial - secured.....	4,778	5,254	1,360	52,255	53,615	63,647	4,068,793	4,132,440
Commercial - unsecured.....	305	10	45	649	694	1,009	166,848	167,857
Total Commercial - industrial, financial and agricultural..	5,083	5,264	1,405	52,904	54,309	64,656	4,235,641	4,300,297
Real estate - home equity.....	9,640	3,015	2,372	9,135	11,507	24,162	1,535,557	1,559,719
Real estate - residential mortgage.....	11,961	6,891	5,280	15,691	20,971	39,823	1,914,888	1,954,711
Construction - commercial.....	483	—	—	19	19	502	765,314	765,816
Construction - commercial residential.....	—	439	—	11,767	11,767	12,206	150,896	163,102
Construction - other.....	203	—	—	411	411	614	77,403	78,017
Total Real estate - construction.....	686	439	—	12,197	12,197	13,322	993,613	1,006,935
Consumer - direct.....	260	55	70	—	70	385	54,828	55,213
Consumer - indirect.....	3,055	626	226	—	226	3,907	254,663	258,570
Total Consumer.....	3,315	681	296	—	296	4,292	309,491	313,783
Leasing, other and overdrafts.....	568	287	32	—	32	887	267,111	267,998
	<u>\$ 40,709</u>	<u>\$ 20,800</u>	<u>\$ 10,010</u>	<u>\$ 124,749</u>	<u>\$ 134,759</u>	<u>\$ 196,268</u>	<u>\$ 15,571,979</u>	<u>\$ 15,768,247</u>

2016								
	30-59 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.....	\$ 6,254	\$ 1,622	\$ 383	\$ 38,936	\$ 39,319	\$ 47,195	\$ 5,971,387	\$ 6,018,582
Commercial - secured.....	6,660	2,616	959	41,589	42,548	51,824	3,881,728	3,933,552
Commercial - unsecured.....	898	35	152	760	912	1,845	152,089	153,934
Total Commercial - industrial, financial and agricultural..	7,558	2,651	1,111	42,349	43,460	53,669	4,033,817	4,087,486
Real estate - home equity.....	6,596	2,678	2,543	10,611	13,154	22,428	1,602,687	1,625,115
Real estate - residential mortgage.....	15,600	4,744	5,224	18,431	23,655	43,999	1,557,995	1,601,994
Construction - commercial.....	743	—	—	435	435	1,178	643,312	644,490
Construction - commercial residential.....	233	51	36	8,275	8,311	8,595	133,594	142,189
Construction - other.....	—	—	—	1,096	1,096	1,096	55,874	56,970
Total Real estate - construction.....	976	51	36	9,806	9,842	10,869	832,780	843,649
Consumer - direct.....	1,211	541	1,563	—	1,563	3,315	93,572	96,887
Consumer - indirect.....	3,200	399	328	—	328	3,927	190,656	194,583
Total Consumer.....	4,411	940	1,891	—	1,891	7,242	284,228	291,470
Leasing, other and overdrafts.....	543	525	317	—	317	1,385	229,591	230,976
	<u>\$ 41,938</u>	<u>\$ 13,211</u>	<u>\$ 11,505</u>	<u>\$ 120,133</u>	<u>\$ 131,638</u>	<u>\$ 186,787</u>	<u>\$ 14,512,485</u>	<u>\$ 14,699,272</u>

The following table presents TDRs as of December 31:

	2017	2016
	(in thousands)	
Real-estate - residential mortgage	\$ 26,016	\$ 27,617
Real estate - home equity	15,558	8,594
Commercial	10,820	6,627
Real-estate - commercial mortgage	13,959	15,957
Consumer - direct	26	39
Construction - commercial residential	—	726
Total accruing TDRs	<u>66,379</u>	<u>59,560</u>
Non-accrual TDRs ⁽¹⁾	<u>29,051</u>	<u>27,850</u>
Total TDRs	<u>\$ 95,430</u>	<u>\$ 87,410</u>

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

As of December 31, 2017 and 2016, there were \$8.6 million and \$3.6 million, respectively, of commitments to lend additional funds to borrowers whose loans were modified under TDRs.

The following table presents TDRs by class segment and type of concession for loans that were modified during the years ended December 31, 2017, 2016 and 2015:

	2017		2016		2015	
	Number of Loans	Post- Modification Recorded Investment	Number of Loans	Post- Modification Recorded Investment	Number of Loans	Post- Modification Recorded Investment
	(dollars in thousands)					
Commercial:						
Extend maturity with rate concession	—	\$ —	—	\$ —	2	\$ 127
Extend maturity without rate concession	23	15,058	12	3,904	10	3,823
Bankruptcy	1	490	—	—	—	—
Real estate - commercial mortgage:						
Extend maturity with rate concession	—	—	—	—	5	2,014
Extend maturity without rate concession	9	2,899	—	—	4	639
Bankruptcy	1	12	—	—	—	—
Real estate - home equity:						
Extend maturity with rate concession	—	—	—	—	2	36
Extend maturity without rate concession	69	5,843	89	4,484	3	203
Bankruptcy	28	1,813	47	2,671	52	2,501
Real estate - residential mortgage:						
Extend maturity with rate concession	2	468	—	—	4	750
Extend maturity without rate concession	5	1,044	2	315	3	262
Bankruptcy	3	392	6	981	7	2,508
Construction - commercial residential:						
Extend maturity without rate concession	1	1,204	—	—	1	1,535
Bankruptcy	1	411	—	—	—	—
Consumer:						
Bankruptcy	—	—	2	23	3	18
Total	<u>143</u>	<u>\$ 29,634</u>	<u>158</u>	<u>\$ 12,378</u>	<u>96</u>	<u>\$ 14,416</u>

The following table presents TDRs, by class segment, that were modified during the years ended December 31, 2017, 2016 and 2015 and had a post-modification payment default during their respective year of modification. The Corporation defines a payment default as a single missed scheduled payment:

	2017		2016		2015	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(dollars in thousands)					
Construction - commercial residential.....	1	\$ 1,192	—	\$ —	—	\$ —
Construction - other	1	411	—	—	—	—
Real estate - commercial mortgage.....	2	549	1	118	4	359
Real estate - residential mortgage.....	5	577	8	1,500	4	445
Commercial.....	6	1,571	7	2,523	8	3,549
Real estate - home equity.....	25	1,575	28	1,836	13	763
Consumer.....	—	—	1	19	—	—
Total	40	\$ 5,875	45	\$ 5,996	29	\$ 5,116

NOTE 5 – PREMISES AND EQUIPMENT

The following is a summary of premises and equipment as of December 31:

	2017	2016
	(in thousands)	
Land.....	\$ 35,560	\$ 36,097
Buildings and improvements	307,332	293,836
Furniture and equipment.....	150,876	137,282
Construction in progress.....	19,916	21,096
	513,684	488,311
Less: Accumulated depreciation and amortization.....	(290,882)	(270,505)
	\$ 222,802	\$ 217,806

NOTE 6 – GOODWILL AND INTANGIBLE ASSETS

Goodwill totaled \$530.6 million and non-amortizing trade name intangible assets totaled \$963,000 as of both December 31, 2017 and 2016. All of the Corporation's reporting units passed the 2017 goodwill impairment test, resulting in no goodwill impairment charges in 2017. All reporting units, with total allocated goodwill of \$530.6 million, had fair values that exceeded net book values by approximately 75% in the aggregate.

The estimated fair values of the Corporation's reporting units are subject to uncertainty, including future changes in fair values of banks in general and future operating results of reporting units, which could differ significantly from the assumptions used in the current valuation of reporting units.

NOTE 7 – MORTGAGE SERVICING RIGHTS

The following table summarizes the changes in MSRs, which are included in other assets on the consolidated balance sheets:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
<u>Amortized cost:</u>		
Balance at beginning of year	\$ 38,822	\$ 40,944
Originations of mortgage servicing rights	4,968	5,485
Amortization expense	(6,127)	(7,607)
Balance at end of year.....	<u>\$ 37,663</u>	<u>\$ 38,822</u>
<u>Valuation allowance:</u>		
Balance at beginning of year	\$ (1,291)	\$ —
Net deductions (additions) to the valuation allowance.....	1,291	(1,291)
Balance at end of year.....	<u>\$ —</u>	<u>\$ (1,291)</u>
Net MSRs at end of year.....	<u>\$ 37,663</u>	<u>\$ 37,531</u>

MSRs represent the economic value of existing contractual rights to service mortgage loans that have been sold. Accordingly, actual and expected prepayments of the underlying mortgage loans can impact the value of MSRs. The Corporation accounts for MSRs at the lower of amortized cost or fair value.

The fair value of MSRs is estimated by discounting the estimated cash flows from servicing income, net of expense, over the expected life of the underlying loans at a discount rate commensurate with the risk associated with these assets. Expected life is based on the contractual terms of the loans, as adjusted for prepayment projections. Based on its fair value analysis, the Corporation determined that a valuation allowance was no longer necessary as of December 31, 2017 and reduced it by \$1.3 million net additions recorded in 2016. Reductions and additions to the valuation allowance are recorded as increases and decreases, respectively, to mortgage banking income on the consolidated statements of income.

The estimated fair value of MSRs was \$41.6 million and \$38.2 million as of December 31, 2017 and 2016, respectively.

Total MSR amortization expense, recognized as a reduction to mortgage banking income in the consolidated statements of income, was \$6.1 million and \$7.6 million in 2017 and 2016, respectively. Estimated MSR amortization expense for the next five years, based on balances as of December 31, 2017 and the estimated remaining lives of the underlying loans, follows (in thousands):

<u>Year</u>	
2018.....	\$ 6,342
2019.....	5,905
2020.....	5,423
2021.....	4,893
2022.....	4,311

NOTE 8 – DEPOSITS

Deposits consisted of the following as of December 31:

	2017	2016
	(in thousands)	
Noninterest-bearing demand.....	\$ 4,437,294	\$ 4,376,137
Interest-bearing demand	4,018,107	3,703,712
Savings and money market accounts.....	4,586,746	4,179,773
Total demand and savings	13,042,147	12,259,622
Brokered deposits	90,473	—
Time deposits.....	2,664,912	2,753,242
Total Deposits.....	<u>\$ 15,797,532</u>	<u>\$ 15,012,864</u>

Included in time deposits were certificates of deposit equal to or greater than \$100,000 of \$1.2 billion as of both December 31, 2017 and 2016. Time deposits of \$250,000 or more were \$373.9 million and \$374.4 million as of December 31, 2017 and 2016, respectively. The scheduled maturities of time deposits as of December 31, 2017 were as follows (in thousands):

Year	
2018.....	\$ 1,085,369
2019.....	866,233
2020.....	436,690
2021.....	122,516
2022.....	76,962
Thereafter	77,142
	<u>\$ 2,664,912</u>

NOTE 9 – SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of December 31, 2017, 2016 and 2015 and the related maximum amounts outstanding at the end of any month in each of the three years then ended are presented below. The securities underlying the repurchase agreements remain in available for sale investment securities.

	December 31,			Maximum Outstanding		
	2017	2016	2015	2017	2016	2015
	(in thousands)					
Federal funds purchased.....	\$ 220,000	\$ 278,570	\$ 197,235	\$ 387,110	\$ 449,184	\$ 266,338
Short-term FHLB advances ⁽¹⁾	—	—	110,000	250,000	—	200,000
Customer repurchase agreements.....	172,017	195,734	111,496	233,274	221,989	212,509
Customer short-term promissory notes ...	225,507	67,013	78,932	237,298	77,887	93,176
	<u>\$ 617,524</u>	<u>\$ 541,317</u>	<u>\$ 497,663</u>			

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

As of December 31, 2017, the Corporation had aggregate availability under Federal funds lines of \$1.2 billion, with \$220.0 million borrowed against that amount. A combination of commercial real estate loans, commercial loans and securities were pledged to the FRB of Philadelphia to provide access to FRB Discount Window borrowings. As of December 31, 2017 and 2016, the Corporation had \$617.4 million and \$1.2 billion, respectively, of collateralized borrowing availability at the Discount Window, and no outstanding borrowings.

The following table presents information related to customer repurchase agreements:

	2017	2016	2015
	(dollars in thousands)		
Amount outstanding as of December 31	\$ 172,017	\$ 195,734	\$ 111,496
Weighted average interest rate as of December 31	0.13%	0.10%	0.15%
Average amount outstanding during the year.....	\$ 188,974	\$ 184,978	\$ 161,093
Weighted average interest rate during the year	0.12%	0.11%	0.10%

FHLB advances with an original maturity of one year or more and long-term debt included the following as of December 31:

	2017	2016
	(in thousands)	
FHLB advances	\$ 652,113	\$ 567,240
Subordinated debt	250,000	350,000
Senior notes	125,000	—
Junior subordinated deferrable interest debentures	16,496	16,496
Unamortized discounts and issuance costs	(5,263)	(4,333)
	<u>\$ 1,038,346</u>	<u>\$ 929,403</u>

Excluded from the preceding table is the Parent Company's revolving line of credit with one of its subsidiary banks. As of December 31, 2017 and 2016, there were no amounts outstanding under this line of credit. This line of credit, with a total commitment of \$75.0 million, is secured by insurance investments and equity securities and bears interest at London Interbank Offered Rate ("LIBOR") for maturities of one month plus 2.00%. The amount that the Corporation is permitted to borrow under this commitment at any given time is subject to a formula based on a percentage of the value of the collateral pledged. Although balances drawn on the line of credit and related interest income and expense are eliminated in the consolidated financial statements, this borrowing arrangement is senior to the subordinated debt and the junior subordinated deferrable interest debentures.

FHLB advances mature through March 2027 and carry a weighted average interest rate of 2.31%. As of December 31, 2017, the Corporation had additional borrowing capacity of approximately \$3.6 billion with the FHLB. Advances from the FHLB are secured by FHLB stock, qualifying residential mortgages, investments and other assets.

The following table summarizes the scheduled maturities of FHLB advances with an original maturity of one year or more and long-term debt as of December 31, 2017 (in thousands):

Year	
2018	\$ 99,217
2019	202,275
2020	142,039
2021	199,054
2022	130,076
Thereafter.....	265,685
	<u>\$ 1,038,346</u>

In March 2017, the Corporation issued \$125.0 million of senior notes, with a fixed rate of 3.60% and an effective rate of 3.95%, as a result of discounts and issuance costs, which mature on March 16, 2022. Interest is paid semi-annually in September and March. In June 2015, the Corporation issued \$150.0 million of ten-year subordinated notes, which mature on November 15, 2024 and carry a fixed rate of 4.50% and an effective rate of approximately 4.69% as a result of discounts and issuance costs. Interest is paid semi-annually in May and November. In November 2014, the Corporation issued \$100.0 million of ten-year subordinated notes, which mature on November 15, 2024 and carry a fixed rate of 4.50% and an effective rate of approximately 4.87% as a result of discounts and issuance costs. Interest is paid semi-annually in May and November.

On May 1, 2017, \$100.0 million of the Corporation's outstanding ten-year subordinated notes originally issued in May 2007 with an effective rate of approximately 5.96%, matured and were fully repaid.

During the third quarter of 2015, \$150.0 million of TruPS, with a scheduled maturity of February 1, 2036 and an effective rate of approximately 6.52%, were redeemed. As a result of this transaction, the Corporation recorded a \$5.6 million loss on redemption,

included as a component of non-interest expense. The loss on redemption consisted of \$1.8 million of unamortized issuance costs and \$2.5 million, net of a \$1.3 million tax effect, of unamortized losses on a cash flow hedge recorded in accumulated other comprehensive income.

As of December 31, 2017, the Parent Company owned all of the common stock of three subsidiary trusts, which have issued TruPS in conjunction with the Parent Company issuing junior subordinated deferrable interest debentures to the trusts. The TruPS are redeemable on specified dates, or earlier if certain events arise.

The following table provides details of the debentures as of December 31, 2017 (dollars in thousands):

Debentures Issued to	Fixed/ Variable	Interest Rate	Amount	Maturity	Callable	Call Price
Columbia Bancorp Statutory Trust.....	Variable	3.99%	\$ 6,186	06/30/34	03/31/18	100.0
Columbia Bancorp Statutory Trust II...	Variable	3.48%	4,124	03/15/35	03/31/18	100.0
Columbia Bancorp Statutory Trust III..	Variable	3.36%	6,186	06/15/35	03/31/18	100.0
			<u>\$ 16,496</u>			

NOTE 10 – DERIVATIVE FINANCIAL INSTRUMENTS

The following table presents the notional amounts and fair values of derivative financial instruments as of December 31:

	2017		2016	
	Notional Amount	Asset (Liability) Fair Value	Notional Amount	Asset (Liability) Fair Value
(in thousands)				
Interest Rate Locks with Customers				
Positive fair values	\$ 129,469	\$ 1,059	\$ 87,119	\$ 863
Negative fair values	8,957	(59)	18,239	(227)
Net interest rate locks with customers.....		1,000		636
Forward Commitments				
Positive fair values	3,856	34	70,031	2,223
Negative fair values	100,808	(213)	19,964	(112)
Net forward commitments.....		(179)		2,111
Interest Rate Swaps with Customers				
Positive fair values	1,316,548	24,505	876,744	24,397
Negative fair values	716,634	(18,978)	583,060	(16,998)
Net interest rate swaps with customers		5,527		7,399
Interest Rate Swaps with Dealer Counterparties				
Positive fair values ⁽¹⁾⁽³⁾	716,634	18,941	583,060	16,998
Negative fair values ⁽²⁾⁽³⁾	1,316,548	(19,764)	876,744	(24,397)
Net interest rate swaps with dealer counterparties		(823)		(7,399)
Foreign Exchange Contracts with Customers				
Positive fair values	4,852	276	11,674	504
Negative fair values	5,914	(119)	4,659	(221)
Net foreign exchange contracts with customers.....		157		283
Foreign Exchange Contracts with Correspondent Banks				
Positive fair values	7,960	184	7,040	241
Negative fair values	6,048	(255)	12,869	(447)
Net foreign exchange contracts with correspondent banks ..		(71)		(206)
Net derivative fair value asset		\$ 5,611		\$ 2,824

(1) Includes centrally cleared interest rate swaps with a notional amount of \$24.4 million and a fair value of \$0 as of December 31, 2017.

(2) Includes centrally cleared interest rate swaps with a notional amount of \$377.1 million and a fair value of \$0 as of December 31, 2017.

(3) The variation margin posted as collateral on centrally cleared interest rate swaps, which represents the fair value of such swaps, is legally characterized as settlements of the outstanding derivative contracts instead of cash collateral. Accordingly, the fair values of centrally cleared interest rate swaps were offset by variation margins totaling \$4.6 million as of December 31, 2017, reducing the fair value of such swaps to \$0. There were no centrally cleared interest rate swaps as of December 31, 2016.

The following table presents the fair value gains and losses on derivative financial instruments for the years ended December 31:

	2017	2016	2015	Statement of Income Classification
	(in thousands)			
Interest rate locks with customers.....	\$ 364	\$ (639)	\$ (110)	Mortgage banking income
Forward commitments	(2,290)	1,930	1,345	Mortgage banking income
Interest rate swaps with customers ⁽¹⁾	(1,872)	(25,461)	13,342	Other non-interest expense
Interest rate swaps with counterparties ⁽¹⁾	6,576	25,461	(13,342)	Other non-interest expense
Foreign exchange contracts with customers	(126)	353	(439)	Other service charges and fees
Foreign exchange contracts with correspondent banks ..	135	(487)	711	Other service charges and fees
Net fair value gains on derivative financial instruments	\$ 2,787	\$ 1,157	\$ 1,507	

(1) Not included is the \$4.6 million expense related to the variation margin settlement.

The Corporation has elected to record mortgage loans held for sale at fair value. The following table presents a summary of mortgage loans held for sale and the impact of the fair value election on the consolidated financial statements as of and for the years ended December 31, 2017 and 2016:

	Cost (1)	Fair Value	Balance Sheet Classification	Fair Value Gain (Loss)	Statement of Income Classification
	(in thousands)				
December 31, 2017:					
Mortgage loans held for sale ...	\$ 31,069	\$ 31,530	Loans held for sale	\$ 472	Mortgage banking income
December 31, 2016:					
Mortgage loans held for sale ...	28,708	28,697	Loans held for sale	(313)	Mortgage banking income

(1) Cost basis of mortgage loans held for sale represents the unpaid principal balance.

The fair values of interest rate swap agreements and foreign exchange contracts the Corporation enters into with customers and dealer counterparties may be eligible for offset on the consolidated balance sheets as they are subject to master netting arrangements or similar agreements. The Corporation elects to not offset assets and liabilities subject to such arrangements on the consolidated financial statements. The following table presents the financial instruments that are eligible for offset, and the effects of offsetting, on the consolidated balance sheets as of December 31:

	Gross Amounts Recognized on the Consolidated Balance Sheets	Gross Amounts Not Offset on the Consolidated Balance Sheets		Net Amount
		Financial Instruments ⁽¹⁾	Cash Collateral ⁽²⁾	
	(in thousands)			
2017				
Interest rate swap derivative assets.....	\$ 43,446	\$ (16,844)	\$ —	\$ 26,602
Foreign exchange derivative assets with correspondent banks	184	(184)	—	—
Total	<u>\$ 43,630</u>	<u>\$ (17,028)</u>	<u>\$ —</u>	<u>\$ 26,602</u>
Interest rate swap derivative liabilities	\$ 38,742	\$ (16,844)	\$ (6,588)	\$ 15,310
Foreign exchange derivative liabilities with correspondent banks..	255	(184)	—	71
Total	<u>\$ 38,997</u>	<u>\$ (17,028)</u>	<u>\$ (6,588)</u>	<u>\$ 15,381</u>
2016				
Interest rate swap derivative assets.....	\$ 41,395	\$ (15,117)	\$ —	\$ 26,278
Foreign exchange derivative assets with correspondent banks	241	(241)	—	—
Total	<u>\$ 41,636</u>	<u>\$ (15,358)</u>	<u>\$ —</u>	<u>\$ 26,278</u>
Interest rate swap derivative liabilities	\$ 41,395	\$ (15,117)	\$ (4,010)	\$ 22,268
Foreign exchange derivative liabilities with correspondent banks..	447	(241)	(206)	—
Total	<u>\$ 41,842</u>	<u>\$ (15,358)</u>	<u>\$ (4,216)</u>	<u>\$ 22,268</u>

- (1) For interest rate swap assets, amounts represent any derivative liability fair values that could be offset in the event of counterparty or customer default. For interest rate swap liabilities, amounts represent any derivative asset fair values that could be offset in the event of counterparty or customer default.
- (2) Amounts represent cash collateral (posted by the Corporation) or received from the counterparty on interest rate swap transactions and foreign exchange contracts with financial institution counterparties. Interest rate swaps with customers are collateralized by the same collateral securing the underlying loans to those borrowers. Cash and securities collateral amounts are included in the table only to the extent of the net derivative fair values.

NOTE 11 – REGULATORY MATTERS

Regulatory Capital Requirements

The Corporation's subsidiary banks are subject to regulatory capital requirements administered by banking regulators. Failure to meet minimum capital requirements can trigger certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the subsidiary banks must meet specific capital guidelines that involve quantitative measures of the subsidiary banks' assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The subsidiary banks' capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

U.S. Basel III Capital Rules

In July 2013, the Federal Reserve Board approved final rules (the "U.S. Basel III Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations and implementing the Basel Committee on Banking Supervision's December 2010 framework for strengthening international capital standards. The U.S. Basel III Capital Rules substantially revised the risk-based capital requirements applicable to bank holding companies and depository institutions.

The minimum regulatory capital requirements established by the U.S. Basel III Capital Rules became effective for the Corporation on January 1, 2015, and become fully phased in on January 1, 2019. When fully phased in, the U.S. Basel III Capital Rules will require the Corporation and its bank subsidiaries to:

- Meet a minimum Common Equity Tier 1 capital ratio of 4.50% of risk-weighted assets and a minimum Tier 1 capital of 6.00% of risk-weighted assets;
- Continue to require a minimum Total capital ratio of 8.00% of risk-weighted assets and a minimum Tier 1 leverage capital ratio of 4.00% of average assets;
- Maintain a "capital conservation buffer" of 2.50% above the minimum risk-based capital requirements, which must be maintained to avoid restrictions on capital distributions and certain discretionary bonus payments; and
- Comply with a revised definition of capital to improve the ability of regulatory capital instruments to absorb losses. Certain non-qualifying capital instruments, including cumulative preferred stock and TruPS, will be excluded as a component of Tier 1 capital for institutions of the Corporation's size.

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

When fully phased in on January 1, 2019, the Corporation and its bank subsidiaries will also be required to maintain a "capital conservation buffer" of 2.50% above the minimum risk-based capital requirements. The required minimum capital conservation buffer began to be phased in incrementally, starting at 0.625%, on January 1, 2016, and increasing to 1.25% on January 1, 2017, and will continue to increase to 1.875% on January 1, 2018 and 2.50% on January 1, 2019. The rules provide that the failure to maintain the "capital conservation buffer" will result in restrictions on capital distributions and discretionary cash bonus payments to executive officers. As a result, under the U.S. Basel III Capital Rules, if any of the Corporation's bank subsidiaries fails to maintain the required minimum capital conservation buffer, the Corporation will be subject to limits, and possibly prohibitions, on its ability to obtain capital distributions from such subsidiaries. If the Corporation does not receive sufficient cash dividends from its bank subsidiaries, it may not have sufficient funds to pay dividends on its capital stock, service its debt obligations or repurchase its common stock. In addition, the restrictions on payments of discretionary cash bonuses to executive officers may make it more difficult for the Corporation to retain key personnel.

As of December 31, 2017, the Corporation's capital levels meet the fully phased-in minimum capital requirements, including the new capital conservation buffers, as prescribed in the U.S. Basel III Capital Rules.

As of December 31, 2017 and 2016, each of the Corporation's subsidiary banks was well capitalized under the regulatory framework for prompt corrective action based on their capital ratio calculations. To be categorized as well capitalized, these banks must maintain minimum total risk-based, Tier I risk-based, Common Equity Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since December 31, 2017 that management believes have changed the institutions' categories.

The following table presents the Total risk-based, Tier I risk-based, Common Equity Tier I risk-based and Tier I leverage requirements for the Corporation and its four significant subsidiaries with total assets in excess of \$1 billion, as of December 31, 2017, under the U.S. Basel III Capital Rules:

	2017					
	Actual		For Capital Adequacy Purposes		Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)					
Total Capital (to Risk-Weighted Assets):						
Corporation.....	\$ 2,179,147	13.0%	\$ 1,338,560	8.0%	N/A	N/A
Fulton Bank, N.A.	1,234,536	12.3	805,125	8.0	\$ 1,006,406	10.0%
Fulton Bank of New Jersey	385,858	12.4	248,640	8.0	310,801	10.0
The Columbia Bank.....	234,647	12.2	153,441	8.0	191,801	10.0
Lafayette Ambassador Bank.....	173,097	14.6	94,720	8.0	118,400	10.0
Tier I Capital (to Risk-Weighted Assets):						
Corporation.....	\$ 1,737,060	10.4%	\$ 1,003,920	6.0%	N/A	N/A
Fulton Bank, N.A.....	1,142,230	11.3	603,843	6.0	\$ 805,125	8.0%
Fulton Bank of New Jersey	346,867	11.2	186,480	6.0	248,640	8.0
The Columbia Bank.....	215,651	11.2	115,081	6.0	153,441	8.0
Lafayette Ambassador Bank.....	162,292	13.7	71,040	6.0	94,720	8.0
Common Equity Tier I Capital (to Risk-weighted Assets):						
Corporation.....	\$ 1,737,060	10.4%	\$ 752,940	4.5%	N/A	N/A
Fulton Bank, N.A.....	1,098,230	10.9	452,883	4.5	\$ 654,164	6.5%
Fulton Bank of New Jersey	346,867	11.2	139,860	4.5	202,020	6.5
The Columbia Bank.....	215,651	11.2	86,310	4.5	124,671	6.5
Lafayette Ambassador Bank.....	162,292	13.7	53,280	4.5	76,960	6.5
Tier I Capital (to Average Assets):						
Corporation.....	\$ 1,737,060	8.9%	\$ 778,451	4.0%	N/A	N/A
Fulton Bank, N.A.....	1,142,230	10.0	458,016	4.0	\$ 572,520	5.0%
Fulton Bank of New Jersey	346,867	8.8	158,027	4.0	197,534	5.0
The Columbia Bank.....	215,651	9.3	92,797	4.0	115,996	5.0
Lafayette Ambassador Bank.....	162,292	10.1	64,191	4.0	80,239	5.0

N/A – Not applicable as "well capitalized" applies to banks only.

The following table presents the Total risk-based, Tier I risk-based, Common Equity Tier 1 risk-based and Tier I leverage requirements as of December 31, 2016, under U.S. Basel III Capital Rules:

	2016					
	Actual		For Capital Adequacy Purposes		Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)						
Total Capital (to Risk-Weighted Assets):						
Corporation.....	\$ 2,074,526	13.2%	\$ 1,255,292	8.0%	N/A	N/A
Fulton Bank, N.A.	1,142,326	12.2	747,359	8.0	\$ 934,199	10.0%
Fulton Bank of New Jersey	385,807	13.1	234,782	8.0	293,427	10.0
The Columbia Bank.....	203,890	12.2	133,836	8.0	167,294	10.0
Lafayette Ambassador Bank.....	175,254	14.6	96,100	8.0	120,125	10.0
Tier I Capital (to Risk-Weighted Assets):						
Corporation.....	\$ 1,637,150	10.4%	\$ 941,469	6.0%	N/A	N/A
Fulton Bank, N.A.....	1,050,175	11.2	560,519	6.0	\$ 747,359	8.0%
Fulton Bank of New Jersey	348,992	11.9	176,086	6.0	234,782	8.0
The Columbia Bank.....	185,983	11.1	100,377	6.0	133,836	8.0
Lafayette Ambassador Bank.....	166,186	13.8	72,075	6.0	96,100	8.0
Common Equity Tier I Capital (to Risk-weighted Assets):						
Corporation.....	\$ 1,637,150	10.4%	\$ 706,102	4.5%	N/A	N/A
Fulton Bank, N.A.....	1,006,175	10.8	420,389	4.5	\$ 607,229	6.5%
Fulton Bank of New Jersey	348,992	11.9	132,065	4.5	190,760	6.5
The Columbia Bank.....	185,983	11.1	72,282	4.5	108,741	6.5
Lafayette Ambassador Bank.....	166,186	13.8	54,056	4.5	78,081	6.5
Tier I Capital (to Average Assets):						
Corporation.....	\$ 1,637,150	9.0%	\$ 727,745	4.0%	N/A	N/A
Fulton Bank, N.A.....	1,050,175	10.1	415,981	4.0	\$ 519,977	5.0%
Fulton Bank of New Jersey	348,992	9.4	148,472	4.0	185,590	5.0
The Columbia Bank.....	185,983	8.6	86,310	4.0	107,888	5.0
Lafayette Ambassador Bank.....	166,186	10.9	61,129	4.0	76,412	5.0

N/A – Not applicable as "well capitalized" applies to banks only.

Dividend and Loan Limitations

The dividends that may be paid by subsidiary banks to the Parent Company are subject to certain legal and regulatory limitations. Dividend limitations vary, depending on the subsidiary bank's charter and primary regulator and whether or not it is a member of the Federal Reserve System. Generally, subsidiaries are prohibited from paying dividends when doing so would cause them to fall below the regulatory minimum capital levels. Additionally, limits may exist on paying dividends in excess of net income for specified periods. The total amount available for payment of dividends by subsidiary banks was approximately \$283 million as of December 31, 2017, based on the subsidiary banks maintaining enough capital to be considered well capitalized under the U.S. Basel III Capital Rules.

Under current Federal Reserve regulations, the subsidiary banks are limited in the amount they may loan to their affiliates, including the Parent Company. Loans to a single affiliate may not exceed 10%, and the aggregate of loans to all affiliates may not exceed 20% of each bank subsidiary's regulatory capital.

NOTE 12 – INCOME TAXES

On December 22, 2017, the President signed the Tax Cuts and Jobs Act of 2017 ("Tax Act"), which among other things, lowered the U.S. corporate income tax rate from a top rate of 35% to a flat rate of 21%. The reduction of the U.S. corporate income tax rate required the Corporation to re-measure its deferred tax assets and liabilities utilizing the lower tax rate as of December 22, 2017. As of December 31, 2017, the Corporation had not completed its accounting for the tax effects of the Tax Act; however, the Corporation was able to reasonably estimate the effects of the re-measurement of its deferred tax balances and recorded a charge of \$15.6 million to income tax expense.

The components of the provision for income taxes are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(in thousands)		
Current tax expense:			
Federal	\$ 19,553	\$ 33,872	\$ 34,455
State	2,617	1,698	2,042
	<u>22,170</u>	<u>35,570</u>	<u>36,497</u>
Deferred tax expense:			
Federal	39,885	7,968	12,752
State	646	3,086	672
	<u>40,531</u>	<u>11,054</u>	<u>13,424</u>
Income tax expense.....	<u>\$ 62,701</u>	<u>\$ 46,624</u>	<u>\$ 49,921</u>

The differences between the effective income tax rate and the federal statutory income tax rate are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutory tax rate	35.0%	35.0%	35.0%
Tax credit investments.....	(7.8)	(7.0)	(5.2)
Tax-exempt income.....	(6.6)	(6.5)	(6.0)
State income taxes, net of federal benefit	(0.5)	1.2	1.9
Bank owned life insurance.....	(0.4)	(0.6)	(0.6)
Re-measurement of net deferred tax asset due to the Tax Act.....	6.7	—	—
Change in valuation allowance	1.2	0.3	(0.9)
Executive compensation	0.1	0.1	0.1
Other, net.....	(1.0)	(0.1)	0.7
Effective income tax rate	<u>26.7%</u>	<u>22.4%</u>	<u>25.0%</u>

The net deferred tax asset recorded by the Corporation is included in other assets and consists of the following tax effects of temporary differences as of December 31:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
Deferred tax assets:		
Allowance for credit losses	\$ 40,554	\$ 62,726
State loss carryforwards	11,855	9,820
Deferred compensation.....	7,663	12,017
Postretirement and defined benefit plans	7,274	12,659
Other accrued expenses	6,977	9,520
Unrealized holding losses on securities available for sale	5,830	12,260
Other-than-temporary impairment of investments	2,045	5,187
Other	6,742	8,500
Total gross deferred tax assets.....	<u>88,940</u>	<u>132,689</u>
Deferred tax liabilities:		
Direct leasing.....	21,917	27,663
Mortgage servicing rights.....	8,204	13,369
Acquisition premiums/discounts	6,030	9,167
Premises and equipment	3,099	5,625
Intangible assets.....	1,155	1,810
Other	10,420	12,530
Total gross deferred tax liabilities	<u>50,825</u>	<u>70,164</u>
Net deferred tax asset, before valuation allowance.....	<u>38,115</u>	<u>62,525</u>
Valuation allowance	<u>(11,855)</u>	<u>(8,950)</u>
Net deferred tax asset	<u>\$ 26,260</u>	<u>\$ 53,575</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and/or capital gain income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies, such as those that may be implemented to generate capital gains, in making this assessment.

The valuation allowance relates to state deferred tax assets and net operating loss carryforwards for which realizability is uncertain. As of December 31, 2017 and 2016, the Corporation had state net operating loss carryforwards of approximately \$369 million and \$391 million, respectively, which are available to offset future state taxable income, and expire at various dates through 2037.

The Corporation has \$2.0 million of deferred tax assets resulting from unrealized other-than-temporary impairment losses on investment securities, which would be characterized as capital losses for tax purposes. If realized, the income tax benefits of these potential capital losses can only be recognized for tax purposes to the extent of capital gains generated during carryback and carryforward periods. The Corporation currently believes that it has the ability to generate sufficient offsetting capital gains in future periods through the execution of certain tax planning strategies, which may include the sale and leaseback of some or all of its branch and office properties. As such, no valuation allowance for the deferred tax assets related to the realized or unrealized capital losses is considered to be necessary as of December 31, 2017.

Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Corporation will realize the benefits of its deferred tax assets, net of the valuation allowance, as of December 31, 2017.

Uncertain Tax Positions

The following summarizes the changes in unrecognized tax benefits for the years ended December 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(in thousands)		
Balance at beginning of year	\$ 2,438	\$ 2,373	\$ 1,944
Current period tax positions	523	456	492
Lapse of statute of limitations	(411)	(391)	(63)
Balance at end of year	<u>\$ 2,550</u>	<u>\$ 2,438</u>	<u>\$ 2,373</u>

As of December 31, 2017, if recognized, all of the Corporation's unrecognized tax benefits would impact the effective tax rate. Not included in the table above is \$540,000 of federal income tax benefit on unrecognized state tax benefits which, if recognized, would also impact the effective tax rate. Interest accrued related to unrecognized tax benefits is recorded as a component of income tax expense. Penalties, if incurred, would also be recognized in income tax expense. The Corporation recognized approximately \$42,000 and \$43,000 in 2017 and 2016, respectively, for interest and penalties in income tax expense related to unrecognized tax positions. As of December 31, 2017 and 2016, total accrued interest and penalties related to unrecognized tax positions were approximately \$616,000 and \$574,000, respectively.

The Corporation and its subsidiaries file income tax returns in the federal and various state jurisdictions. In most cases, unrecognized tax benefits are related to tax years that remain subject to examination by the relevant taxing authorities. With few exceptions, the Corporation is no longer subject to federal, state and local examinations by tax authorities for years before 2014.

NOTE 13 – EMPLOYEE BENEFIT PLANS

The following summarizes the Corporation's expense under its retirement plans for the years ended December 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(in thousands)		
401(k) Retirement Plan	\$ 8,121	\$ 7,418	\$ 6,423
Pension Plan	4,168	4,310	4,102
	<u>\$ 12,289</u>	<u>\$ 11,728</u>	<u>\$ 10,525</u>

The 401(k) Retirement Plan is a defined contribution plan under which eligible employees may defer a portion of their pre-tax covered compensation on an annual basis, with employer matches of up to 5% of employee compensation. Employee and employer contributions under these features are 100% vested. Prior to January 1, 2015, this plan also included a profit sharing component whereby additional employer contributions not to exceed 5% of each eligible employee's covered compensation, were provided for certain employees.

Contributions to the Defined Benefit Pension Plan ("Pension Plan") are actuarially determined and funded annually, if necessary. The Corporation recognizes the funded status of its Pension Plan on the consolidated balance sheets and recognizes the changes in that funded status through other comprehensive income. The Pension Plan has been curtailed, with no additional benefits accruing to participants.

Pension Plan

The net periodic pension cost for the Pension Plan, as determined by consulting actuaries, consisted of the following components for the years ended December 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(in thousands)		
Service cost ⁽¹⁾	\$ —	\$ 688	\$ 579
Interest cost	3,320	3,520	3,405
Expected return on assets	(1,804)	(2,318)	(3,009)
Net amortization and deferral	2,652	2,420	3,127
Net periodic pension cost	<u>\$ 4,168</u>	<u>\$ 4,310</u>	<u>\$ 4,102</u>

(1) The Pension Plan was curtailed effective January 1, 2008. Pension plan service cost for all years presented was related to administrative costs associated with the plan and not due to the accrual of additional participant benefits. Beginning January 1, 2017 the administrative costs were netted with the expected return on assets.

The following table summarizes the changes in the projected benefit obligation and fair value of plan assets for the plan years ended December 31:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
Projected benefit obligation at beginning of year	\$ 85,363	\$ 84,736
Service cost ⁽¹⁾	—	688
Interest cost	3,320	3,520
Benefit payments	(3,751)	(5,172)
Change in assumptions	5,008	1,635
Experience gain	(458)	(44)
Projected benefit obligation at end of year	<u>\$ 89,482</u>	<u>\$ 85,363</u>
Fair value of plan assets at beginning of year	\$ 48,684	\$ 46,971
Employer contributions ⁽²⁾	3,816	5,169
Actual return on plan assets	5,312	1,716
Benefit payments	(3,751)	(5,172)
Fair value of plan assets at end of year	<u>\$ 54,061</u>	<u>\$ 48,684</u>

(1) The Pension Plan was curtailed effective January 1, 2008. Pension plan service cost for all years presented was related to administrative costs associated with the plan and not due to the accrual of additional participant benefits. Beginning January 1, 2017 the administrative costs were netted with the expected return on assets.

(2) The Corporation funds at least the minimum amount required by federal law and regulations. The Corporation contributed \$3.8 million and \$5.2 million to the Pension Plan during 2017 and 2016, respectively.

The following table presents the funded status of the Pension Plan, included in other liabilities on the consolidated balance sheets, as of December 31:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
Projected benefit obligation	\$ (89,482)	\$ (85,363)
Fair value of plan assets	54,061	48,684
Funded status	<u>\$ (35,421)</u>	<u>\$ (36,679)</u>

The following table summarizes the changes in the unrecognized net loss included as a component of accumulated other comprehensive loss:

	Unrecognized Net Loss	
	Before tax	Net of tax
(in thousands)		
Balance as of December 31, 2015	\$ 30,396	\$ 19,758
Recognized as a component of 2016 periodic pension cost	(2,420)	(1,573)
Unrecognized gains arising in 2016	2,193	1,425
Balance as of December 31, 2016	30,169	19,610
Recognized as a component of 2017 periodic pension cost	(2,652)	(1,724)
Unrecognized losses arising in 2017	1,042	678
Balance as of December 31, 2017	\$ 28,559	\$ 18,564

The total amount of unrecognized net loss that will be amortized as a component of net periodic pension cost in 2018 is expected to be \$2.8 million.

The following rates were used to calculate net periodic pension cost and the present value of benefit obligations as of December 31:

	2017	2016	2015
Discount rate-projected benefit obligation.....	3.50%	4.00%	4.25%
Expected long-term rate of return on plan assets.....	5.00%	5.00%	6.00%

The discount rates used were determined using the Citigroup Average Life discount rate table, as adjusted based on the Pension Plan's expected benefit payments and rounded to the nearest 0.25%.

The 5.00% long-term rate of return on plan assets used to calculate the net periodic pension cost was based on historical returns, adjusted for expectations of long-term asset returns based on the December 31, 2017 weighted average asset allocations. The expected long-term return is considered to be appropriate based on the asset mix and the historical returns realized.

The following table presents a summary of the fair values of the Pension Plan's assets as of December 31:

	2017		2016	
	Estimated Fair Value	% of Total Assets	Estimated Fair Value	% of Total Assets
(dollars in thousands)				
Equity mutual funds	\$ 19,219		\$ 12,689	
Equity common trust funds	9,612		7,936	
Equity securities	28,831	53.3%	20,625	42.4%
Cash and money market funds	5,675		7,149	
Fixed income mutual funds	11,136		10,540	
Corporate debt securities	2,999		3,252	
U.S. Government agency securities.....	249		496	
Fixed income securities and cash	20,059	37.1%	21,437	44.0%
Other alternative investment funds.....	5,171	9.6%	6,622	13.6%
	\$ 54,061	100.0%	\$ 48,684	100.0%

Investment allocation decisions are made by a retirement plan committee. The goal of the investment allocation strategy is to match certain benefit obligations with maturities of fixed income securities. Pension Plan assets are invested with a balanced objective, with target asset allocations of approximately 50% in equities, 40% in fixed income securities and cash and 10% in alternative investments. Alternative investments may include managed futures, commodities, real estate investment trusts, master limited partnerships, and long-short strategies with traditional stocks and bonds. All alternative investments are in the form of mutual funds, not individual contracts, to enable daily liquidity.

The fair values for all assets held by the Pension Plan, excluding equity common trust funds, are based on quoted prices for identical instruments and would be categorized as Level 1 assets under FASB ASC Topic 810. Equity common trust funds would be categorized as Level 2 assets under FASB ASC Topic 810.

Estimated future benefit payments are as follows (in thousands):

Year	
2018	\$ 3,773
2019	3,858
2020	4,220
2021	4,424
2022	4,530
2023 – 2027	24,571
	<u>\$ 45,376</u>

Postretirement Benefits

The Corporation provides medical benefits 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. Prior to February 1, 2014, certain full-time employees became eligible for these discretionary benefits if they reached retirement age while working for the Corporation. The Corporation recognizes the funded status of the postretirement plan on the consolidated balance sheets and recognizes the changes in that funded status through other comprehensive income.

In 2015, the Corporation amended the postretirement plan to eliminate a death benefit provision and to fix the cost of health insurance premiums paid for by each participant. This amendment resulted in a \$2.5 million decrease in the postretirement benefit obligation that will be amortized to income over the estimated average remaining life of plan participants, or approximately 14 years.

The components of the net (benefit) expense for postretirement benefits other than pensions are as follows:

	2017	2016	2015
	(in thousands)		
Interest cost	\$ 68	\$ 85	\$ 206
Net amortization and deferral	(565)	(551)	(258)
Net postretirement benefit	<u>\$ (497)</u>	<u>\$ (466)</u>	<u>\$ (52)</u>

The following table summarizes the changes in the accumulated postretirement benefit obligation and fair value of plan assets for the years ended December 31:

	2017	2016
	(in thousands)	
Accumulated postretirement benefit obligation at beginning of year	\$ 1,926	\$ 2,875
Interest cost	68	85
Benefit payments	(216)	(282)
Experience gain	(104)	(732)
Change in assumptions	26	(20)
Accumulated postretirement benefit obligation at end of year	<u>\$ 1,700</u>	<u>\$ 1,926</u>
Fair value of plan assets at beginning of year	\$ 3	\$ 15
Employer contributions	213	270
Benefit payments	(216)	(282)
Fair value of plan assets at end of year	<u>\$ —</u>	<u>\$ 3</u>

The following table presents the funded status of the Postretirement Plan, included in other liabilities on the consolidated balance sheets as of December 31:

	<u>2017</u>	<u>2016</u>
	(in thousands)	
Accumulated postretirement benefit obligation.....	\$ (1,700)	\$ (1,926)
Fair value of plan assets.....	—	3
Funded status	<u>\$ (1,700)</u>	<u>\$ (1,923)</u>

The following table summarizes the changes in items recognized as a component of accumulated other comprehensive loss:

	Before tax			
	Unrecognized Prior Service Cost	Unrecognized Net Loss (Gain)	Total	Net of tax
	(in thousands)			
Balance as of December 31, 2015.....	\$ (5,334)	\$ (508)	\$ (5,842)	\$ (3,798)
Recognized as a component of 2016 postretirement benefit cost.....	465	86	551	358
Unrecognized gains arising in 2016.....	—	(761)	(761)	(495)
Balance as of December 31, 2016.....	(4,869)	(1,183)	(6,052)	(3,935)
Recognized as a component of 2017 postretirement benefit cost.....	465	101	566	368
Unrecognized gains arising in 2017.....	—	(77)	(77)	(50)
Balance as of December 31, 2017.....	<u>\$ (4,404)</u>	<u>\$ (1,159)</u>	<u>\$ (5,563)</u>	<u>\$ (3,617)</u>

The following rates were used to calculate net periodic postretirement benefit cost and the present value of benefit obligations as of December 31:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Discount rate-projected benefit obligation.....	3.50%	4.25%	4.25%
Expected long-term rate of return on plan assets.....	3.00%	3.00%	3.00%

The discount rates used to calculate the accumulated postretirement benefit obligation were determined using the Citigroup Average Life discount rate table, as adjusted based on the Postretirement Plan's expected benefit payments and rounded to the nearest 0.25%.

Estimated future benefit payments under the Postretirement Plan are as follows (in thousands):

<u>Year</u>	
2018.....	\$ 196
2019.....	184
2020.....	171
2021.....	159
2022.....	147
2023 – 2027.....	574
	<u>\$ 1,431</u>

NOTE 14 – SHAREHOLDERS' EQUITY

Accumulated Other Comprehensive Income (Loss)

The following table presents the components of other comprehensive income (loss) for the years ended December 31:

	Before-Tax Amount	Tax Effect	Net of Tax Amount
	(in thousands)		
2017:			
Unrealized gain on securities	\$ 16,051	\$ (5,619)	\$ 10,432
Reclassification adjustment for securities gains included in net income ⁽¹⁾	(9,071)	3,177	(5,894)
Non-credit related unrealized loss on other-than-temporarily impaired debt securities	285	(100)	185
Unrecognized pension and postretirement cost	(937)	328	(609)
Amortization of net unrecognized pension and postretirement income ⁽²⁾	2,092	(731)	1,361
Total Other Comprehensive Income	<u>\$ 8,420</u>	<u>\$ (2,945)</u>	<u>\$ 5,475</u>
2016:			
Unrealized loss on securities	\$ (22,907)	\$ 8,016	\$ (14,891)
Reclassification adjustment for securities gains included in net income ⁽¹⁾	(2,550)	893	(1,657)
Non-credit related unrealized loss on other-than-temporarily impaired debt securities	(285)	100	(185)
Amortization of unrealized loss on derivative financial instruments ⁽³⁾	25	(9)	16
Unrecognized pension and postretirement cost	(1,432)	501	(931)
Amortization of net unrecognized pension and postretirement income ⁽²⁾	1,869	(653)	1,216
Total Other Comprehensive Loss	<u>\$ (25,280)</u>	<u>\$ 8,848</u>	<u>\$ (16,432)</u>
2015:			
Unrealized loss on securities	\$ (11,872)	\$ 4,155	\$ (7,717)
Reclassification adjustment for securities gains included in net income ⁽¹⁾	(9,066)	3,174	(5,892)
Reclassification adjustment for loss on derivative financial instruments included in net income ⁽²⁾ ..	3,778	(1,322)	2,456
Non-credit related unrealized gains on other-than-temporarily impaired debt securities	368	(129)	239
Amortization of unrealized loss on derivative financial instruments ⁽³⁾	115	(40)	75
Unrecognized pension and postretirement income	7,200	(2,520)	4,680
Amortization of net unrecognized pension and postretirement income ⁽²⁾	2,869	(1,005)	1,864
Total Other Comprehensive Loss	<u>\$ (6,608)</u>	<u>\$ 2,313</u>	<u>\$ (4,295)</u>

(1) Amounts reclassified out of accumulated other comprehensive income (loss). Before-tax amounts included in "Investment securities gains, net" on the consolidated statements of income. See "Note 3 - Investment Securities," for additional details.

(2) Amounts reclassified out of accumulated other comprehensive income (loss). Before-tax amounts included in "Salaries and employee benefits" on the consolidated statements of income. See "Note 13 - Employee Benefit Plans," for additional details.

(3) Amounts reclassified out of accumulated other comprehensive income (loss). Before-tax amounts included in "Interest Expense" on the consolidated statements of income.

The following table presents changes in each component of accumulated other comprehensive income (loss), net of tax, for the years ended December 31:

	Unrealized Gain (Losses) on Investment Securities Not Other- Than- Temporarily Impaired	Unrealized Non-Credit Gains (Losses) on Other-Than- Temporarily Impaired Debt Securities	Unrealized Effective Portions of Losses on Forward- Starting Interest Rate Swaps	Unrecognized Pension and Postretirement Plan Income (Cost)	Total
	(in thousands)				
Balance as of December 31, 2014.....	\$ 5,980	\$ 1,349	\$ (2,546)	\$ (22,505)	\$ (17,722)
Other comprehensive income (loss) before reclassifications.....	(7,717)	239	—	4,680	(2,798)
Amounts reclassified from accumulated other comprehensive income (loss).....	(4,762)	(1,130)	75	1,864	(3,953)
Reclassification adjustment for loss on derivative financial instruments.....	—	—	2,456	—	2,456
Balance as of December 31, 2015.....	(6,499)	458	(15)	(15,961)	(22,017)
Other comprehensive loss before reclassifications.....	(14,891)	(185)	—	(931)	(16,007)
Amounts reclassified from accumulated other comprehensive income (loss).....	(1,657)	—	15	1,217	(425)
Balance as of December 31, 2016.....	(23,047)	273	—	(15,675)	(38,449)
Other comprehensive income before reclassifications.....	10,432	185	—	(609)	10,008
Amounts reclassified from accumulated other comprehensive income (loss).....	(5,894)	—	—	1,361	(4,533)
Balance as of December 31, 2017.....	\$ (18,509)	\$ 458	\$ —	\$ (14,923)	\$ (32,974)

Common Stock Repurchase Plans

In November 2017, the Corporation's board of directors approved an extension to a share repurchase program pursuant to which the Corporation is authorized to repurchase up to \$50.0 million of its outstanding shares of common stock, or approximately 2.3% of its outstanding shares, through December 31, 2018. Repurchased shares will be added to treasury stock, at cost. As permitted by securities laws and other legal requirements, and subject to market conditions and other factors, purchases may be made from time to time in open market or privately negotiated transactions, including, without limitation, through accelerated share repurchase transactions. The share repurchase program may be discontinued at any time. As of December 31, 2017, 1.5 million shares had been repurchased under this program for a total cost of \$18.5 million, or \$12.48 per share. Up to an additional \$31.5 million of the Corporation's common stock may be repurchased under this program through December 31, 2018.

In April 2015, the Corporation announced that its board of directors had approved a share repurchase program pursuant to which the Corporation was authorized to repurchase up to \$50.0 million of its outstanding shares of common stock, or approximately 2.3% of its outstanding shares, through December 31, 2015. During 2015, the Corporation repurchased approximately 4.0 million shares under this program for a total cost of \$50.0 million, or \$12.57 per share, completing this program.

NOTE 15 – STOCK-BASED COMPENSATION PLANS

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

	2017	2016	2015
	(in thousands)		
Compensation expense.....	\$ 5,209	\$ 6,556	\$ 5,938
Tax benefit.....	(3,994)	(2,679)	(2,011)
Stock-based compensation, net of tax.....	<u>\$ 1,215</u>	<u>\$ 3,877</u>	<u>\$ 3,927</u>

The tax benefits as a percentage of compensation expense, as shown in the preceding table, were 76.7%, 40.9% and 33.9% in 2017, 2016 and 2015, respectively. These percentages differ from the Corporation's 35% statutory federal tax rate. Tax benefits are only recognized over the vesting period for awards that ordinarily will generate a tax deduction when exercised, in the case of non-qualified stock options, or upon vesting, in the case of restricted stock, RSUs and PSUs. Tax benefits less than the 35% statutory federal tax rate resulted from incentive stock options, for which a tax benefit is not recognized during the vesting period. Tax benefits in excess of the 35% statutory federal tax rate resulted from incentive stock option exercises that triggered a tax deduction when they were exercised, and excess tax benefits realized on vesting RSUs and PSUs during the period.

The following table presents compensation expense and related tax benefits for restricted stock awards, RSUs and PSUs recognized in the consolidated statements of income, and included as a component of total stock-based compensation in the preceding table:

	2017	2016	2015
	(in thousands)		
Compensation expense.....	\$ 4,922	\$ 6,165	\$ 4,646
Tax benefit.....	(1,559)	(2,158)	(1,626)
Restricted stock compensation, net of tax.....	<u>\$ 3,363</u>	<u>\$ 4,007</u>	<u>\$ 3,020</u>

The following table provides information about stock option activity for the year ended December 31, 2017:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding as of December 31, 2016	1,330,183	\$ 10.98		
Exercised	(411,292)	11.45		
Forfeited	(14,574)	10.64		
Expired	(26,115)	13.97		
Outstanding as of December 31, 2017	<u>878,202</u>	<u>\$ 10.66</u>	<u>4.1 years</u>	<u>\$ 6.4</u>
Exercisable as of December 31, 2017	<u>878,202</u>	<u>\$ 10.66</u>	<u>4.1 years</u>	<u>\$ 6.4</u>

The following table provides information about nonvested stock options, restricted stock, RSUs and PSUs granted under the Employee Equity Plan and Directors' Plan for the year ended December 31, 2017:

	Nonvested Stock Options		Restricted Stock/RSUs/PSUs	
	Options	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested as of December 31, 2016.....	82,447	\$ 3.14	1,525,715	\$ 12.74
Granted	—	—	501,664	15.85
Vested	(81,847)	3.14	(603,308)	12.51
Forfeited	(600)	3.14	(117,134)	14.15
Nonvested as of December 31, 2017.....	<u>—</u>	<u>\$ —</u>	<u>1,306,937</u>	<u>\$ 13.91</u>

The vested and forfeited stock option shown in the table above were granted in 2014. There were no stock options granted in 2017, 2016, or 2015. The fair value of stock options granted in 2014 was estimated on the grant date using the Black-Scholes valuation methodology.

As of December 31, 2017, there was \$7.4 million of total unrecognized compensation cost (pre-tax) related to restricted stock, RSUs and PSUs that will be recognized as compensation expense over a weighted average period of two years. As of December 31, 2017, the Employee Equity Plan had 11.1 million shares reserved for future grants through 2023, and the Directors' Plan had 360,000 shares reserved for future grants through 2021.

The following table presents information about stock options exercised:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
	(dollars in thousands)		
Number of options exercised	411,292	920,924	490,151
Total intrinsic value of options exercised.....	\$ 2,955	\$ 4,619	\$ 1,442
Cash received from options exercised	\$ 4,644	\$ 10,240	\$ 4,936
Tax deduction realized from options exercised.....	\$ 2,825	\$ 4,328	\$ 1,389

Upon exercise, the Corporation issues shares from its authorized, but unissued, common stock to satisfy the options.

The fair value of certain PSUs with market-based performance conditions granted under the Employee Equity Plan was estimated on the grant date using the Monte Carlo valuation methodology performed by a third-party valuation expert. This valuation is dependent upon certain assumptions, as summarized in the following table:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Risk-free interest rate	1.43%	0.92%	0.86%
Volatility of Corporation's stock	22.45%	20.75%	20.08%
Expected life of PSUs	3 Years	3 Years	3 Years

The expected life of the PSUs with fair values measured using the Monte Carlo valuation methodology was based on the defined performance period of three years. Volatility of the Corporation's stock was based on historical volatility for the period commensurate with the expected life of the PSUs. The risk-free interest rate is the zero-coupon U.S. Treasury rate commensurate with the expected life of the PSUs on the date of the grant. Based on the assumptions above, the Corporation calculated an estimated fair value per PSU with market-based performance conditions granted in 2017, 2016 and 2015 of \$17.25, \$11.23 and \$10.66, respectively.

Under the ESPP, eligible employees can purchase stock of the Corporation at 85% of the fair market value of the stock on the date of purchase. The ESPP is considered to be a compensatory plan and, as such, compensation expense is recognized for the 15% discount on shares purchased. The following table summarizes activity under the ESPP:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
ESPP shares purchased.....	98,000	109,665	121,890
Average purchase price per share (85% of market value).....	\$ 15.28	\$ 12.37	\$ 10.86
Compensation expense recognized (in thousands)	\$ 261	\$ 240	\$ 234

NOTE 16 – LEASES

Certain branch offices and equipment are leased under agreements that expire at varying dates through 2036. Most leases contain renewal provisions at the Corporation's option. Total rental expense was approximately \$18.7 million in 2017, \$18.4 million in 2016 and \$18.1 million in 2015.

Future minimum payments as of December 31, 2017 under non-cancelable operating leases with initial terms exceeding one year are as follows (in thousands):

Year	
2018	\$ 17,417
2019	15,730
2020	14,592
2021	12,988
2022	10,763
Thereafter	45,905
	<u>\$ 117,395</u>

NOTE 17 – 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.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments is expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral, if any, obtained upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, property, equipment and income producing commercial properties.

Standby letters of credit are conditional commitments issued to guarantee the financial or performance obligation of a customer to a third party. Commercial letters of credit are conditional commitments issued to facilitate foreign and domestic trade transactions for customers. The credit risk involved in issuing letters of credit is similar to that involved in extending loan facilities. These obligations are underwritten consistently with commercial lending standards. The maximum exposure to loss for standby and commercial letters of credit is equal to the contractual (or notional) amount of the instruments.

The Corporation records a reserve for unfunded commitments, included in other liabilities on the consolidated balance sheets, which represents management's estimate of losses inherent in commitments to extend credit and letters of credit. See "Note 4 - Loans and Allowance for Credit Losses," for additional information.

The following table presents commitments to extend credit and letters of credit:

	2017	2016
	(in thousands)	
Commercial and other	\$ 3,689,700	\$ 3,673,815
Home equity	1,422,284	1,368,465
Commercial mortgage and construction	1,093,045	1,033,287
Total commitments to extend credit	<u>\$ 6,205,029</u>	<u>\$ 6,075,567</u>
Standby letters of credit	\$ 326,973	\$ 356,359
Commercial letters of credit	41,801	38,901
Total letters of credit	<u>\$ 368,774</u>	<u>\$ 395,260</u>

Residential Lending

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

The Corporation provides customary representations and warranties to government sponsored agencies and investors that specify, among other things, that the loans have been underwritten to the standards established by the government sponsored agency or investor. The Corporation may be required to repurchase a loan or reimburse the government sponsored agency or investor for a credit loss incurred on a loan, if it is determined that the representations and warranties have not been met. Such repurchases or reimbursements generally result from an underwriting or documentation deficiency. As of December 31, 2017 and 2016, total outstanding repurchase requests totaled approximately \$543,000.

From 2000 to 2011, the Corporation sold loans to the FHLB of Pittsburgh under its Mortgage Partnership Finance Program ("MPF Program"). No loans were sold under this program since 2011. The Corporation provided a "credit enhancement" for residential mortgage loans sold under the MPF Program whereby it would assume credit losses in excess of a defined "First Loss Account," or "FLA" balance, up to specified amounts. The FLA is funded by the FHLB of Pittsburgh based on a percentage of the outstanding principal balance of loans sold. As of December 31, 2017, the unpaid principal balance of loans sold under the MPF Program was approximately \$84 million. As of December 31, 2017 and 2016, the reserves for estimated credit losses related to loans sold under the MPF Program were \$1.2 million and \$1.7 million, respectively. Required reserves are calculated based on delinquency status and estimated loss rates established through the Corporation's existing allowance for credit loss methodology for residential mortgage loans.

As of December 31, 2017 and 2016, the reserve for losses on residential mortgage loans sold was \$2.1 million and \$2.5 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 December 31, 2017 are adequate. However, declines in collateral values, the identification of additional loans to be repurchased, or a deterioration in the credit quality of loans sold under the MPF Program could necessitate additional reserves, established through charges to earnings, in the future.

Legal Proceedings

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

As of the date of this report, the Corporation believes that any liabilities, individually or in the aggregate, which may result from the final outcomes of pending proceedings will not have a material adverse effect on the financial condition of the Corporation. However, legal proceedings are often unpredictable, and it is possible that the ultimate resolution of any such matters, if unfavorable, may be material to the Corporation's results of operations for any particular period, depending, in part, upon the size of the loss or liability imposed and the operating results for the applicable period.

BSA/AML Enforcement Orders

The Corporation and three of its bank subsidiaries are subject to regulatory enforcement orders issued during 2014 and 2015 by their respective federal and state bank regulatory agencies relating to identified deficiencies in the Corporation's centralized Bank Secrecy Act and anti-money laundering compliance program (the "BSA/AML Compliance Program"), which was designed to comply with the requirements of the Bank Secrecy Act, the USA Patriot Act of 2001 and related anti-money laundering regulations (collectively, the "BSA/AML Requirements"). The regulatory enforcement orders, which are in the form of consent orders or orders to cease and desist issued upon consent ("Consent Orders"), generally require, among other things, that the Corporation and the affected bank subsidiaries undertake a number of required actions to strengthen and enhance the BSA/AML Compliance Program, and, in some cases, conduct retrospective reviews of past account activity and transactions, as well as certain reports filed in accordance with the BSA/AML Requirements, to determine whether suspicious activity and certain transactions in currency were properly identified and reported in accordance with the BSA/AML Requirements. The Corporation and the affected bank subsidiaries have implemented numerous enhancements to the BSA/AML Compliance Program, completed the retrospective

reviews required under the Consent Orders, and continue to strengthen and refine the BSA/AML Compliance Program to achieve a sustainable program in accordance with the BSA/AML Requirements. In addition to requiring strengthening and enhancement of the BSA/AML Compliance Program, while the Consent Orders remain in effect, the Corporation is subject to certain restrictions on expansion activities of the Corporation and its bank subsidiaries. Further, any failure to comply with the requirements of any of the Consent Orders involving the Corporation or the affected bank subsidiaries could result in further enforcement actions, the imposition of material restrictions on the activities of the Corporation or its bank subsidiaries, or the assessment of fines or penalties.

As previously disclosed, on October 27, 2017, the Office of the Comptroller of the Currency (the "OCC") terminated the Consent Orders that it issued on July 14, 2014 to three of the Corporation's bank subsidiaries, Fulton Bank, N.A., FNB Bank, N.A. and Swineford National Bank, relating to deficiencies in the BSA/AML Compliance Programs at those bank subsidiaries.

Fair Lending Investigation

During the second quarter of 2015, Fulton Bank, N.A., the Corporation's largest bank subsidiary, received a letter from the U.S. Department of Justice (the "Department") indicating that the Department had initiated an investigation regarding potential violations of fair lending laws (specifically, the Equal Credit Opportunity Act and the Fair Housing Act) by Fulton Bank, N.A. in certain geographies. Fulton Bank, N.A. has been and is cooperating with the Department and responding to the Department's requests for information. During the third quarter of 2016, the Department informed the Corporation, Fulton Bank, N.A., and three of the Corporation's other bank subsidiaries, Fulton Bank of New Jersey, The Columbia Bank and Lafayette Ambassador Bank, that the Department was expanding its investigation of potential lending discrimination on the basis of race and national origin to encompass additional geographies that were not included in the initial letter from the Department. In addition to requesting information concerning the lending activities of these bank subsidiaries, the Department also requested information concerning the Corporation and the residential mortgage lending activities conducted under the Fulton Mortgage Company brand, the trade name used by all of the Corporation's bank subsidiaries for residential mortgage lending. The investigation relates to lending activities during the period January 1, 2009 to the present. The Corporation and the identified bank subsidiaries are cooperating with the Department and responding to the Department's requests for information. The Corporation and its bank subsidiaries are not able at this time to determine the terms on which this investigation will be resolved or the timing of such resolution, or to reliably estimate the amounts of any settlement, fines or other penalties or the cost of any other remedial actions, if enforcement action is taken. In addition, should the investigation result in an enforcement action against the Corporation or its bank subsidiaries, or a settlement with the Department, the ability of the Corporation and its bank subsidiaries to engage in certain expansion or other activities may be restricted.

Agostino, et al. Litigation

Fulton Bank, N.A. (the "Bank"), the Corporation's largest bank subsidiary, and two unrelated, third-party defendants, Ameriprise Financial Services, Inc. ("Ameriprise") and Riverview Bank ("Riverview"), were named as defendants in a lawsuit brought on behalf of a group of 67 plaintiffs filed on March 31, 2016, in the Court of Common Pleas for Dauphin County, Pennsylvania (Agostino, et al. v. Ameriprise Financial Services, Inc., et al., No. 2016-CV-2048-CV). The plaintiffs in this action were clients of Jeffrey M. Mottern, a now-deceased attorney, who is alleged to have operated a fraud scheme over a period of years through the sale of fictitious high-yield investments or by otherwise misappropriating funds entrusted to Mr. Mottern. The lawsuit sought damages from the defendants, including the Bank, alleged to be in excess of \$11.3 million, treble damages and attorneys' fees with respect to alleged violations of the Pennsylvania Unfair Trade Practices and Consumer Protection Law, punitive damages, plus interest and costs.

In October 2017, the Bank and the plaintiffs agreed to settle the lawsuit. Pursuant to the terms of the settlement agreement between the Bank and the plaintiffs, the claims against the Bank were dismissed with prejudice on December 13, 2017, and the Bank made the agreed-upon settlement payment. Also during December 2017, the Corporation received reimbursement from the Corporation's insurance carrier for the full amount of the agreed-upon settlement payment.

NOTE 18 – FAIR VALUE MEASUREMENTS

All assets and liabilities measured at fair value on both a recurring and nonrecurring basis have been categorized based on the method of their fair value determination.

The following tables summarizes the Corporation's assets and liabilities measured at fair value on a recurring basis and reported on the consolidated balance sheets as of December 31:

	2017			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Mortgage loans held for sale	\$ —	\$ 31,530	\$ —	\$ 31,530
Available for sale investment securities:				
Equity securities	918	—	—	918
U.S. Government sponsored agency securities	—	5,938	—	5,938
State and municipal securities	—	408,949	—	408,949
Corporate debt securities	—	93,552	3,757	97,309
Collateralized mortgage obligations.....	—	602,623	—	602,623
Residential mortgage-backed securities	—	1,120,796	—	1,120,796
Commercial mortgage-backed securities	—	212,755	—	212,755
Auction rate securities	—	—	98,668	98,668
Total available for sale investment securities.....	918	2,444,613	102,425	2,547,956
Other assets.....	19,451	44,539	—	63,990
Total assets	\$ 20,369	\$ 2,520,682	\$ 102,425	\$ 2,643,476
Other liabilities	\$ 19,357	\$ 39,014	\$ —	\$ 58,371

	2016			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Mortgage loans held for sale	\$ —	\$ 28,697	\$ —	\$ 28,697
Available for sale investment securities:				
Equity securities	24,526	—	—	24,526
U.S. Government sponsored agency securities	—	134	—	134
State and municipal securities	—	391,641	—	391,641
Corporate debt securities	—	106,537	2,872	109,409
Collateralized mortgage obligations.....	—	593,860	—	593,860
Residential mortgage-backed securities	—	1,317,838	—	1,317,838
Commercial mortgage-backed securities	—	24,563	—	24,563
Auction rate securities	—	—	97,256	97,256
Total available for sale investment securities.....	24,526	2,434,573	100,128	2,559,227
Other assets.....	17,111	44,481	—	61,592
Total assets	\$ 41,637	\$ 2,507,751	\$ 100,128	\$ 2,649,516
Other liabilities	\$ 17,032	\$ 41,734	\$ —	\$ 58,766

The valuation techniques used to measure fair value for the items in the table above 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 December 31, 2017 and 2016 were measured as the price that secondary market investors were offering for loans with similar characteristics. See "Note 1 - Summary of Significant Accounting Policies" for details related to the Corporation's election to measure assets and liabilities at fair value.
- Available for sale investment securities – Included within this asset category are both equity and debt securities. Level 2 available for sale debt securities are valued by a third-party pricing service commonly used in the banking industry.

The pricing service uses pricing models that vary based on asset class and incorporate available market information, including quoted prices of investment securities with similar characteristics. Because many fixed income securities do not trade on a daily basis, pricing models use available information, as applicable, through processes such as benchmark yield curves, benchmarking of like securities, sector groupings, and matrix pricing.

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

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

- Equity securities – Equity securities consist of stocks of financial institutions (\$7,000 at December 31, 2017 and \$23.5 million at December 31, 2016) and other equity investments (\$911,000 at December 31, 2017 and \$1.0 million at December 31, 2016). These Level 1 investments are measured at fair value based on quoted prices for identical securities in active markets.
- U.S. Government securities/U.S. Government sponsored agency securities/State and municipal securities/Collateralized mortgage obligations/Residential mortgage-backed securities/Commercial 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 and senior debt issued by financial institutions (\$61.9 million at December 31, 2017 and \$65.2 million at December 31, 2016), single-issuer trust preferred securities issued by financial institutions (\$30.7 million at December 31, 2017 and \$39.8 million at December 31, 2016), pooled trust preferred securities issued by financial institutions (\$707,000 at December 31, 2017 and \$422,000 at December 31, 2016) and other corporate debt issued by non-financial institutions (\$4.0 million at December 31, 2017 and 2016).

Level 2 investments include subordinated debt and senior debt, other corporate debt issued by non-financial institutions and \$27.7 million and \$37.3 million of single-issuer trust preferred securities held at December 31, 2017 and 2016, respectively. The fair values for these corporate debt securities are determined by a third-party pricing service, as detailed above.

Level 3 investments include the Corporation's investments in pooled trust preferred securities (\$707,000 at December 31, 2017 and \$422,000 at December 31, 2016) and certain single-issuer trust preferred securities (\$3.1 million at December 31, 2017 and \$2.5 million at December 31, 2016). The fair values of these securities were determined based on quotes provided by third-party brokers who determined fair values based predominantly on internal valuation models which were not indicative prices or binding offers. The Corporation's third-party pricing service cannot derive fair values for these securities primarily due to inactive markets for similar investments. Level 3 values are tested by management primarily through trend analysis, by comparing current values to those reported at the end of the preceding calendar quarter, and determining if they are reasonable based on price and spread movements for this asset class.

- Auction rate securities – Due to their illiquidity, ARCs are classified as Level 3 investments and are valued through the use of an expected cash flows model prepared by a third-party valuation expert. The assumptions used in preparing the expected cash flows model include estimates for coupon rates, time to maturity and market rates of return. The most significant unobservable input to the expected cash flows model is an assumed return to market liquidity sometime within the next five years. If the assumed return to market liquidity was lengthened beyond the next five years, this would result in a decrease in the fair value of these ARCs. The Corporation believes that the trusts underlying the ARCs will self-liquidate as student loans are repaid. Level 3 values are tested by management through the performance of a trend analysis of the market price and discount rate. Changes in the price and discount rates are compared to changes in market data, including bond ratings, parity ratios, balances and delinquency levels.
- Other assets – Included within this category are the following:
 - Level 1 assets, consisting of mutual funds that are held in trust for employee deferred compensation plans (\$19.0 million at December 31, 2017 and \$16.4 million at December 31, 2016) and the fair value of foreign currency exchange contracts (\$460,000 at December 31, 2017 and \$745,000 at December 31, 2016). The mutual funds and foreign exchange prices used to measure these items at fair value are based on quoted prices for identical instruments in active markets.

- Level 2 assets, representing the fair value of mortgage banking derivatives in the form of interest rate locks and forward commitments with secondary market investors (\$1.1 million at December 31, 2017 and \$3.1 million at December 31, 2016) and the fair value of interest rate swaps (\$43.4 million at December 31, 2017 and \$41.4 million at December 31, 2016). The fair values of the interest rate locks, forward commitments and interest rate swaps represent the amounts that would be required to settle the derivative financial instruments at the balance sheet date. See "Note 10 - Derivative Financial Instruments," for additional information.
- Other liabilities – Included within this category are the following:
 - Level 1 employee deferred compensation liabilities which represent amounts due to employees under deferred compensation plans (\$19.0 million at December 31, 2017 and \$16.4 million at December 31, 2016) and the fair value of foreign currency exchange contracts (\$374,000 at December 31, 2017 and \$668,000 at December 31, 2016). The fair values of these liabilities are determined in the same manner as the related assets, as described under the heading "Other assets," above.
 - Level 2 liabilities, representing the fair value of mortgage banking derivatives in the form of interest rate locks and forward commitments with secondary market investors (\$272,000 at December 31, 2017 and \$339,000 at December 31, 2016) and the fair value of interest rate swaps (\$38.7 million at December 31, 2017 and \$41.4 million at December 31, 2016). The fair values of these liabilities are determined in the same manner as the related assets, which are described under the heading "Other assets" above.

The following table presents the changes in available for sale investment securities measured at fair value on a recurring basis using unobservable inputs (Level 3) for the years ended December 31:

	Pooled Trust Preferred Securities	Single-issuer Trust Preferred Securities	Auction Rate Securities
	(in thousands)		
Balance as of December 31, 2015	\$ 706	\$ 2,630	\$ 98,059
Unrealized adjustments to fair value ⁽¹⁾	(286)	(190)	(1,246)
Discount accretion ⁽²⁾	2	10	443
Balance as of December 31, 2016	422	2,450	97,256
Unrealized adjustments to fair value ⁽¹⁾	285	588	1,217
Discount accretion ⁽²⁾	—	12	195
Balance as of December 31, 2017	\$ 707	\$ 3,050	\$ 98,668

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

Certain assets are not measured at fair value on an ongoing basis but are subject to fair value measurement in certain circumstances, such as upon their acquisition or when there is evidence of impairment. The following table presents the Corporation's assets measured at fair value on a nonrecurring basis and reported on the consolidated balance sheets at December 31:

	2017	2016
	(in thousands)	
Net loans	\$ 149,608	\$ 132,576
OREO	9,823	12,815
MSRs	37,663	37,532
Total assets	\$ 197,094	\$ 182,923

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

- Net loans – This category consists of loans that were evaluated for impairment under FASB ASC Section 310-10-35 and have been classified as Level 3 assets. The amount shown is the balance of impaired loans, net of the related allowance for loan losses. See "Note 4 - Loans and Allowance for Credit Losses," for additional details.

- **OREO** – This category includes OREO (\$9.8 million at December 31, 2017 and \$12.8 million at December 31, 2016) 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** - This category includes MSRs (\$37.7 million at December 31, 2017 and \$37.5 million at December 31, 2016), classified as Level 3 assets. MSRs are initially recorded at fair value upon the sale of residential mortgage loans to secondary market investors. MSRs are amortized as a reduction to servicing income over the estimated lives of the underlying loans. MSRs are stratified and evaluated for impairment by comparing each stratum's carrying amount to its estimated fair value. Fair values are determined at the end of each quarter through a discounted cash flows valuation performed by a third-party valuation expert. Significant inputs to the valuation included expected net servicing income, the discount rate and the expected life of the underlying loans. Expected life is based on the contractual terms of the loans, as adjusted for prepayment projections. The weighted average annual constant prepayment rate and the weighted average discount rate used in the December 31, 2017 valuation were 11.7% and 9.5%, respectively. Management tests the reasonableness of the significant inputs to the third-party valuation in comparison to market data.

As required by FASB ASC Section 825-10-50, the following table details the book values and the estimated fair values of the Corporation's financial instruments as of December 31, 2017 and 2016. A general description of the methods and assumptions used to estimate such fair values is also provided.

	2017		2016	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
(in thousands)				
FINANCIAL ASSETS				
Cash and due from banks ⁽¹⁾	\$ 108,291	\$ 108,291	\$ 118,763	\$ 118,763
Interest-bearing deposits with other banks ⁽¹⁾	293,805	293,805	233,763	233,763
FRB and FHLB stock ⁽²⁾	60,761	60,761	57,489	57,489
Loans held for sale ⁽³⁾	31,530	31,530	28,697	28,697
Available for sale investment securities ⁽²⁾	2,547,956	2,547,956	2,559,227	2,559,227
Net Loans ⁽⁴⁾	15,598,337	15,380,974	14,530,593	14,387,454
Accrued interest receivable ⁽¹⁾	52,910	52,910	46,294	46,294
Other financial assets ⁽¹⁾	215,464	215,464	206,132	206,132
FINANCIAL LIABILITIES				
Demand and savings deposits ⁽¹⁾	\$ 13,042,147	\$ 13,042,147	\$ 12,259,622	\$ 12,259,622
Brokered deposits ⁽¹⁾	90,473	90,473	—	—
Time deposits ⁽⁵⁾	2,664,912	2,673,359	2,753,242	2,769,757
Short-term borrowings ⁽¹⁾	617,524	617,524	541,317	541,317
Accrued interest payable ⁽¹⁾	9,317	9,317	9,632	9,632
Other financial liabilities ⁽³⁾	227,569	227,569	216,080	216,080
FHLB advances and long-term debt ⁽⁵⁾	1,038,346	1,025,640	929,403	928,167

- (1) Short-term financial instrument, defined as those with remaining maturities of 90 days or less and excluding those recorded at fair value on the consolidated balance sheets. Book value is considered to be a reasonable estimate of fair value.
- (2) Restricted investments, carried at cost on the consolidated balance sheets.
- (3) These financial instruments, or certain financial instruments within these categories, are measured at fair value on the consolidated balance sheets. Descriptions of the fair value determinations for these financial instruments are disclosed above.
- (4) Fair value measured using unobservable inputs (level 3). Includes impaired loans, which are measured on a nonrecurring basis.
- (5) Fair value measured using observable inputs (level 2).

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

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

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

NOTE 19 – CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY

CONDENSED BALANCE SHEETS

	December 31,	
	2017	2016
	(in thousands)	
<u>ASSETS</u>		
Cash	\$ 22,857	\$ 8,568
Other assets	5,959	5,648
Receivable from subsidiaries	53,880	46,715
Investments in:		
Bank subsidiaries	2,399,053	2,265,264
Non-bank subsidiaries	426,846	417,615
<i>Total Assets</i>	<u>\$ 2,908,595</u>	<u>\$ 2,743,810</u>
<u>LIABILITIES AND EQUITY</u>		
Long-term debt	\$ 386,101	\$ 362,005
Payable to non-bank subsidiaries	206,766	183,152
Other liabilities	85,871	77,538
<i>Total Liabilities</i>	678,738	622,695
Shareholders' equity	2,229,857	2,121,115
<i>Total Liabilities and Shareholders' Equity</i>	<u>\$ 2,908,595</u>	<u>\$ 2,743,810</u>

CONDENSED STATEMENTS OF INCOME

	2017	2016	2015
	(in thousands)		
Income:			
Dividends from subsidiaries	\$ 66,500	\$ 115,000	\$ 114,000
Other ⁽¹⁾	171,490	148,577	141,241
	<u>237,990</u>	<u>263,577</u>	<u>255,241</u>
Expenses	199,981	177,835	176,457
Income before income taxes and equity in undistributed net income of subsidiaries.	38,009	85,742	78,784
Income tax benefit	(5,448)	(10,543)	(11,834)
	<u>43,457</u>	<u>96,285</u>	<u>90,618</u>
Equity in undistributed net income (loss) of:			
Bank subsidiaries	111,226	58,477	60,806
Non-bank subsidiaries	17,070	6,863	(1,922)
<i>Net Income</i>	<u>\$ 171,753</u>	<u>\$ 161,625</u>	<u>\$ 149,502</u>

(1) Consists primarily of management fees received from subsidiary banks.

CONDENSED STATEMENTS OF CASH FLOWS

	2017	2016	2015
	(in thousands)		
Cash Flows From Operating Activities:			
Net Income	\$ 171,753	\$ 161,625	\$ 149,502
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of issuance costs and discount of long-term debt.....	845	—	—
Stock-based compensation	4,740	6,556	5,938
Excess tax benefits from stock-based compensation.....	—	(964)	(201)
Increase in other assets	(17,882)	(16,585)	2,806
Equity in undistributed net income of subsidiaries	(128,298)	(65,340)	(58,884)
Loss on redemption of trust preferred securities	—	—	5,626
Increase (decrease) in other liabilities and payable to non-bank subsidiaries.....	31,241	(5,928)	106,490
Total adjustments.....	(109,354)	(82,261)	61,775
Net cash provided by operating activities	62,399	79,364	211,277
Cash Flows From Investing Activities			
	—	—	—
Cash Flows From Financing Activities:			
Repayments of long-term debt	(100,000)	—	(254,640)
Additions to long-term debt.....	123,251	—	147,779
Net proceeds from issuance of common stock	9,007	16,167	10,607
Excess tax benefits from stock-based compensation.....	—	964	201
Dividends paid.....	(80,368)	(69,382)	(65,361)
Acquisition of treasury stock.....	—	(18,545)	(50,000)
Net cash used in financing activities	(48,110)	(70,796)	(211,414)
Net Increase (Decrease) in Cash and Cash Equivalents	14,289	8,568	(137)
Cash and Cash Equivalents at Beginning of Year	8,568	—	137
Cash and Cash Equivalents at End of Year.....	\$ 22,857	\$ 8,568	\$ —

Management Report on Internal Control Over Financial Reporting

The management of Fulton Financial Corporation is responsible for establishing and maintaining adequate internal control over financial reporting. Fulton Financial Corporation's internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2017, using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework (2013). Based on this assessment, management concluded that, as of December 31, 2017, the Corporation's internal control over financial reporting is effective based on those criteria.

/s/ E. PHILIP WENGER

E. Philip Wenger
Chairman and Chief Executive Officer

/s/ PHILMER H. ROHRBAUGH

Philmer H. Rohrbaugh
Senior Executive Vice President
and Chief Financial Officer

Report of Independent Registered Public Accounting Firm

To the shareholders and board of directors
Fulton Financial Corporation:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Fulton Financial Corporation and subsidiaries (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Company’s consolidated financial statements and an opinion on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

We have served as the Company's auditor since 2002.

Philadelphia, Pennsylvania

March 1, 2018

QUARTERLY CONSOLIDATED RESULTS OF OPERATIONS (UNAUDITED)
(in thousands, except per-share data)

	Three Months Ended			
	March 31	June 30	September 30	December 31
2017				
Interest income	\$ 158,487	\$ 163,881	\$ 171,511	\$ 174,987
Interest expense	20,908	22,318	24,702	25,574
Net interest income	137,579	141,563	146,809	149,413
Provision for credit losses	4,800	6,700	5,075	6,730
Non-interest income	46,673	52,371	51,974	56,956
Non-interest expenses	122,275	132,695	132,157	138,452
Income before income taxes	57,177	54,539	61,551	61,187
Income tax expense	13,797	9,072	12,646	27,186
Net income	<u>\$ 43,380</u>	<u>\$ 45,467</u>	<u>\$ 48,905</u>	<u>\$ 34,001</u>
Per share data:				
Net income (basic)	\$ 0.25	\$ 0.26	\$ 0.28	\$ 0.19
Net income (diluted)	0.25	0.26	0.28	0.19
Cash dividends	0.11	0.11	0.11	0.14
2016				
Interest income	\$ 149,311	\$ 149,309	\$ 151,468	\$ 153,012
Interest expense	20,257	20,393	20,903	20,775
Net interest income	129,054	128,916	130,565	132,237
Provision for credit losses	1,530	2,511	4,141	5,000
Non-interest income	43,137	46,137	48,149	52,755
Non-interest expenses	120,413	121,637	119,848	127,621
Income before income taxes	50,248	50,905	54,725	52,371
Income tax expense	11,991	11,155	13,257	10,221
Net income	<u>\$ 38,257</u>	<u>\$ 39,750</u>	<u>\$ 41,468</u>	<u>\$ 42,150</u>
Per share data:				
Net income (basic)	\$ 0.22	\$ 0.23	\$ 0.24	\$ 0.24
Net income (diluted)	0.22	0.23	0.24	0.24
Cash dividends	0.09	0.10	0.10	0.12

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Disclosure 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 its disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based upon the evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2017, 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 the Corporation's 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.

The "Management Report on Internal Control over Financial Reporting" and the "Report of Independent Registered Public Accounting Firm" may be found in Item 8, "Financial Statements and Supplementary Data" of this document.

Changes in Internal Controls

There was no change in the Corporation's "internal control over financial reporting" (as such term is defined in Rule 13a-15(f) under the Exchange Act) that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Incorporated by reference herein is the information appearing under the headings "Information about Nominees, Directors and Independence Standards," "Related Person Transactions," "Section 16(a) Beneficial Ownership Reporting Compliance," "Code of Conduct," "Procedure for Shareholder Nominations," and "Other Board Committees" within the Corporation's 2018 Proxy Statement. The information concerning executive officers required by this Item is provided under the caption "Executive Officers" within Item 1, Part I, "Business" in this Annual Report.

The Corporation has adopted a code of ethics (Code of Conduct) that applies to all directors, officers and employees, including the Chief Executive Officer, the Chief Financial Officer and the Corporate Controller. A copy of the Code of Conduct may be obtained free of charge by writing to the Corporate Secretary at Fulton Financial Corporation, P.O. Box 4887, Lancaster, Pennsylvania 17604-4887, and is also available via the internet at www.fult.com.

Item 11. Executive Compensation

Incorporated by reference herein is the information appearing under the headings "Information Concerning Compensation" and "Human Resources Committee Interlocks and Insider Participation" within the Corporation's 2018 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Incorporated by reference herein is the information appearing under the heading "Security Ownership of Directors, Nominees, Management and Certain Beneficial Owners" within the Corporation's 2018 Proxy Statement, and information appearing under the heading "Securities Authorized for Issuance under Equity Compensation Plans" within Item 5, "Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities" in this Annual Report.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Incorporated by reference herein is the information appearing under the headings "Related Person Transactions" and "Information about Nominees, Directors and Independence Standards" within the Corporation's 2018 Proxy Statement, and the information appearing in "Note 4 - Loans and Allowance for Credit Losses," of the Notes to Consolidated Financial Statements in Item 8, "Financial Statements and Supplementary Data" in this Annual Report.

Item 14. Principal Accounting Fees and Services

Incorporated by reference herein is the information appearing under the heading "Relationship With Independent Public Accountants" within the Corporation's 2018 Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

1. Financial Statements — The following consolidated financial statements of Fulton Financial Corporation and subsidiaries are incorporated herein by reference in response to Item 8 above:
 - (i) Consolidated Balance Sheets - December 31, 2017 and 2016.
 - (ii) Consolidated Statements of Income - Years ended December 31, 2017, 2016 and 2015.
 - (iii) Consolidated Statements of Comprehensive Income - Years ended December 31, 2017, 2016 and 2015.
 - (iii) Consolidated Statements of Shareholders' Equity - Years ended December 31, 2017, 2016 and 2015.
 - (iv) Consolidated Statements of Cash Flows - Years ended December 31, 2017, 2016 and 2015.
 - (v) Notes to Consolidated Financial Statements.
 - (vi) Report of Independent Registered Public Accounting Firm.
2. Financial Statement Schedules — All financial statement schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and have therefore been omitted.
 - 3.1 Articles of Incorporation, as amended and restated, of Fulton Financial Corporation as amended – Incorporated by reference to Exhibit 3.1 of the Fulton Financial Corporation Current Report Form 8-K filed 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/A filed September 23, 2014.
 - 4.1 An Indenture entered into on November 17, 2014 between Fulton Financial Corporation and Wilmington Trust, National Association as trustee, relating to the issuance by Fulton Financial Corporation of \$250 million aggregate principal amount of 4.50% subordinated notes due November 15, 2024 – Incorporated by reference to Exhibit 4.1 of the Fulton Financial Corporation Current Report on Form 8-K filed November 17, 2014.
 - 4.2 First Supplemental Indenture entered into on November 17, 2014 between Fulton Financial Corporation and Wilmington Trust, National Association as trustee, relating to the issuance by Fulton Financial Corporation of \$250 million aggregate principal amount of 4.50% subordinated notes due November 15, 2024 - Incorporated by reference to Exhibit 4.2 of the Fulton Financial Corporation Current Report on Form 8-K filed November 17, 2014.
 - 4.3 Form of Note (Included in Exhibit 4.2).
 - 4.4 An Indenture entered into on March 16, 2017 between Fulton Financial Corporation and Wilmington Trust, National Association as trustee, relating to the issuance by Fulton Financial Corporation of \$125 million aggregate principal amount of 3.60% senior notes due March 16, 2022 - Incorporated by reference to Exhibit 4.1 of the Fulton Financial Corporation Current Report on Form 8-K filed March 16, 2017.
 - 4.5 First Supplemental Indenture entered into on March 16, 2017 between Fulton Financial Corporation and Wilmington Trust Company as trustee, relating to the issuance by Fulton Financial Corporation of \$125 million aggregate principal amount of 3.60% senior notes due March 16, 2022 - Incorporated by reference to Exhibit 4.2 of the Fulton Financial Corporation Current Report on Form 8-K filed March 16, 2017.
 - 4.6 Form of Note (Included in Exhibit 4.2).
 - 10.1 Amended Employment Agreement between Fulton Financial Corporation and E. Philip Wenger dated November 12, 2008 – Incorporated by reference to Exhibit 10.5 of the Fulton Financial Corporation Current Report on Form 8-K filed November 14, 2008.
 - 10.2 Employment Agreement between Fulton Financial Corporation and Craig A. Roda dated August 1, 2011 – Incorporated by reference to Exhibit 10.1 of the Fulton Financial Corporation Current Report on Form 8-K filed August 5, 2011.
 - 10.3 Employment Agreement between Fulton Financial Corporation and Philmer H. Rohrbaugh dated November 1, 2012 – Incorporated by reference to Exhibit 10.1 of the Fulton Financial Corporation Current Report on Form 8-K filed October 22, 2012.
 - 10.4 Form of Executive Employment Agreement between Fulton Financial Corporation and certain Executive Officers of Fulton Financial Corporation - Incorporated by reference to Exhibit 10.1 of the Fulton Financial Corporation Current Report on Form 8-K filed January 4, 2018.
 - 10.4.1 Schedule of Executive Employment Agreements between Fulton Financial Corporation and certain Executive Officers of Fulton Financial Corporation - filed herewith.
 - 10.5 Form of Key Employee Change in Control Agreement between Fulton Financial Corporation and certain Executive Officers of Fulton Financial Corporation, Incorporated by reference to Exhibit 10.2 of the Fulton Financial Corporation Current Report on Form 8-K filed January 4, 2018.

- 10.5.1 Schedule of Key Employee Change in Control Agreements between Fulton Financial Corporation and certain Executive Officers of Fulton Financial Corporation - filed herewith.
- 10.6 Form of Death Benefit Only Agreement to Senior Management - Incorporated by reference to Exhibit 10.9 of the Fulton Financial Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2006.
- 10.7 Fulton Financial Corporation Amended and Restated Equity and Cash Incentive Compensation Plan – Incorporated by reference to Exhibit 10.1 of the Fulton Financial Corporation Current Report on Form 8-K filed May 3, 2013.
- 10.8 Amendment No. 1 to Fulton Financial Corporation Amended and Restated Equity and Cash Incentive Compensation Plan - Incorporated by reference to Exhibit 10.1 of the Fulton Financial Corporation Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016.
- 10.9 Amendment No. 2 to Fulton Financial Corporation Amended and Restated Equity and Cash Incentive Compensation Plan - filed herewith.
- 10.10 Form of Option Award and Form of Restricted Stock Award under the Fulton Financial Corporation Amended and Restated Equity and Cash Incentive Compensation Plan between Fulton Financial Corporation and Officers of the Corporation – Incorporated by reference to Exhibits 10.1 and 10.2, respectively, of the Fulton Financial Corporation Current Report on Form 8-K filed June 19, 2013.
- 10.11 Amended and Restated Fulton Financial Corporation Employee Stock Purchase Plan – Incorporated by reference to Exhibit A to Fulton Financial Corporation’s definitive proxy statement, filed March 26, 2014.
- 10.12 Fulton Financial Corporation Deferred Compensation Plan, as amended and restated effective December 1, 2015 – Incorporated by reference to Exhibit 10.12 of the Fulton Financial Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2015.
- 10.13 Agreement between Fulton Financial Corporation and Fiserv Solutions, Inc. dated July 11, 2016 - Incorporated by reference to Exhibit 10.1 of the Fulton Financial Corporation Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016. Portions of this exhibit have been redacted and are subject to a confidential treatment request filed with the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. The redacted material was filed separately with the Securities and Exchange Commission.
- 10.14 Fulton Financial Corporation 2011 Directors' Equity Participation Plan – Incorporated by reference to Exhibit A to Fulton Financial Corporation’s definitive proxy statement, filed March 24, 2011.
- 10.15 Amendment No. 1 to Fulton Financial Corporation 2011 Directors' Equity Participation Plan - filed herewith.
- 10.16 Form of Restricted Stock Award Agreement between Fulton Financial Corporation and Directors of the Corporation as of July 1, 2011 – Incorporated by reference to Exhibit 10.2 of the Fulton Financial Corporation Quarterly Report on Form 10-Q for quarterly period ended June 30, 2011.
- 10.17 Forms of Time-Vested Restricted Stock Unit Award Agreement and Performance Share Restricted Stock Unit Award Agreement between Fulton Financial Corporation and Certain Employees of the Corporation as of March 18, 2014 – Incorporated by reference to Exhibits 10.1 and 10.2, respectively, of the Fulton Financial Corporation Current Report on Form 8-K filed March 24, 2014.
- 10.18 Form of Master Confirmation between Fulton Financial Corporation and Goldman, Sachs & Co. - Incorporated by reference to Exhibit 10.1 of the Fulton Financial Corporation Current Report on Form 8-K filed November 17, 2014.
- 12 Computation of Consolidated Ratios of Earnings to Fixed Charges - filed herewith.
- 21 Subsidiaries of the Registrant.
- 23 Consent of Independent Registered Public Accounting Firm.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Interactive data file containing the following financial statements formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets at December 31, 2017 and December 31, 2016; (ii) the Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015; (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015; (iv) the Consolidated Statements of Shareholders' Equity for the years ended December 31, 2017, 2016 and 2015; (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015; and, (iv) the Notes to Consolidated Financial Statements – filed herewith.

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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
(Registrant)

Dated: March 1, 2018

By: /s/ E. PHILIP WENGER

E. Philip Wenger,
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been executed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/S/ LISA CRUTCHFIELD</u> Lisa Crutchfield	Director	March 1, 2018
<u>/S/ MICHAEL J. DEPORTER</u> Michael J. DePorter	Executive Vice President and Controller (Principal Accounting Officer)	March 1, 2018
<u>/S/ DENISE L. DEVINE</u> Denise L. Devine	Director	March 1, 2018
<u>/S/ PATRICK J. FREER</u> Patrick J. Freer	Director	March 1, 2018
<u>/S/ GEORGE W. HODGES</u> George W. Hodges	Director	March 1, 2018
<u>/S/ ALBERT MORRISON, III</u> Albert Morrison, III	Director	March 1, 2018
<u>/S/ JAMES R. MOXLEY, III</u> James R. Moxley, III	Director	March 1, 2018
<u>/S/ PHILMER H. ROHRBAUGH</u> Philmer H. Rohrbaugh	Senior Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 1, 2018

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/S/ R. SCOTT SMITH, JR.</u> R. Scott Smith, Jr.	Director	March 1, 2018
<u>/S/ SCOTT A. SNYDER</u> Scott A. Snyder	Director	March 1, 2018
<u>/S/ RONALD H. SPAIR</u> Ronald H. Spair	Director	March 1, 2018
<u>/S/ MARK F. STRAUSS</u> Mark F. Strauss	Director	March 1, 2018
<u>/S/ ERNEST J. WATERS</u> Ernest J. Waters	Director	March 1, 2018
<u>/S/ E. PHILIP WENGER</u> E. Philip Wenger	Chairman and Chief Executive Officer (Principal Executive Officer)	March 1, 2018

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 as amended – Incorporated by reference to Exhibit 3.1 of the Fulton Financial Corporation Current Report Form 8-K filed 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/A filed September 23, 2014.
- 4.1 An Indenture entered into on November 17, 2014 between Fulton Financial Corporation and Wilmington Trust, National Association as trustee, relating to the issuance by Fulton Financial Corporation of \$250 million aggregate principal amount of 4.50% subordinated notes due November 15, 2024 – Incorporated by reference to Exhibit 4.1 of the Fulton Financial Corporation Current Report on Form 8-K filed November 17, 2014.
- 4.2 First Supplemental Indenture entered into on November 17, 2014 between Fulton Financial Corporation and Wilmington Trust, National Association as trustee, relating to the issuance by Fulton Financial Corporation of \$250 million aggregate principal amount of 4.50% subordinated notes due November 15, 2024 - Incorporated by reference to Exhibit 4.2 of the Fulton Financial Corporation Current Report on Form 8-K filed November 17, 2014.
- 4.3 Form of Note (Included in Exhibit 4.2).
- 4.4 An Indenture entered into on March 16, 2017 between Fulton Financial Corporation and Wilmington Trust, National Association as trustee, relating to the issuance by Fulton Financial Corporation of \$125 million aggregate principal amount of 3.60% senior notes due March 16, 2022 - Incorporated by reference to Exhibit 4.1 of the Fulton Financial Corporation Current Report on Form 8-K filed March 16, 2017.
- 4.5 First Supplemental Indenture entered into on March 16, 2017 between Fulton Financial Corporation and Wilmington Trust Company as trustee, relating to the issuance by Fulton Financial Corporation of \$125 million aggregate principal amount of 3.60% senior notes due March 16, 2022 - Incorporated by reference to Exhibit 4.2 of the Fulton Financial Corporation Current Report on Form 8-K filed March 16, 2017.
- 4.6 Form of Note (Included in Exhibit 4.2).
- 10.1 Amended Employment Agreement between Fulton Financial Corporation and E. Philip Wenger dated November 12, 2008 – Incorporated by reference to Exhibit 10.5 of the Fulton Financial Corporation Current Report on Form 8-K filed November 14, 2008.
- 10.2 Employment Agreement between Fulton Financial Corporation and Craig A. Roda dated August 1, 2011 – Incorporated by reference to Exhibit 10.1 of the Fulton Financial Corporation Current Report on Form 8-K filed August 5, 2011.
- 10.3 Employment Agreement between Fulton Financial Corporation and Philmer H. Rohrbaugh dated November 1, 2012 – Incorporated by reference to Exhibit 10.1 of the Fulton Financial Corporation Current Report on Form 8-K filed October 22, 2012.
- 10.4 Form of Executive Employment Agreement between Fulton Financial Corporation and certain Executive Officers of Fulton Financial Corporation - Incorporated by reference to Exhibit 10.1 of the Fulton Financial Corporation Current Report on Form 8-K filed January 4, 2018.
- 10.4.1 Schedule of Executive Employment Agreements between Fulton Financial Corporation and certain Executive Officers of Fulton Financial Corporation - filed herewith.
- 10.5 Form of Key Employee Change in Control Agreement between Fulton Financial Corporation and certain Executive Officers of Fulton Financial Corporation, Incorporated by reference to Exhibit 10.2 of the Fulton Financial Corporation Current Report on Form 8-K filed January 4, 2018.

- 10.5.1 Schedule of Key Employee Change in Control Agreements between Fulton Financial Corporation and certain Executive Officers of Fulton Financial Corporation - filed herewith.
- 10.6 Form of Death Benefit Only Agreement to Senior Management - Incorporated by reference to Exhibit 10.9 of the Fulton Financial Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2006.
- 10.7 Fulton Financial Corporation Amended and Restated Equity and Cash Incentive Compensation Plan – Incorporated by reference to Exhibit 10.1 of the Fulton Financial Corporation Current Report on Form 8-K filed May 3, 2013.
- 10.8 Amendment No. 1 to Fulton Financial Corporation Amended and Restated Equity and Cash Incentive Compensation Plan - Incorporated by reference to Exhibit 10.1 of the Fulton Financial Corporation Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2016.
- 10.9 Amendment No. 2 to Fulton Financial Corporation Amended and Restated Equity and Cash Incentive Compensation Plan - filed herewith.
- 10.10 Form of Option Award and Form of Restricted Stock Award under the Fulton Financial Corporation Amended and Restated Equity and Cash Incentive Compensation Plan between Fulton Financial Corporation and Officers of the Corporation – Incorporated by reference to Exhibits 10.1 and 10.2, respectively, of the Fulton Financial Corporation Current Report on Form 8-K filed June 19, 2013.
- 10.11 Amended and Restated Fulton Financial Corporation Employee Stock Purchase Plan – Incorporated by reference to Exhibit A to Fulton Financial Corporation’s definitive proxy statement, filed March 26, 2014.
- 10.12 Fulton Financial Corporation Deferred Compensation Plan, as amended and restated effective December 1, 2015 – Incorporated by reference to Exhibit 10.12 of the Fulton Financial Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2015.
- 10.13 Agreement between Fulton Financial Corporation and Fiserv Solutions, Inc. dated July 11, 2016 - Incorporated by reference to Exhibit 10.1 of the Fulton Financial Corporation Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016. Portions of this exhibit have been redacted and are subject to a confidential treatment request filed with the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. The redacted material was filed separately with the Securities and Exchange Commission.
- 10.14 Fulton Financial Corporation 2011 Directors' Equity Participation Plan – Incorporated by reference to Exhibit A to Fulton Financial Corporation’s definitive proxy statement, filed March 24, 2011.
- 10.15 Amendment No. 1 to Fulton Financial Corporation 2011 Directors' Equity Participation Plan - filed herewith.
- 10.16 Form of Restricted Stock Award Agreement between Fulton Financial Corporation and Directors of the Corporation as of July 1, 2011 – Incorporated by reference to Exhibit 10.2 of the Fulton Financial Corporation Quarterly Report on Form 10-Q for quarterly period ended June 30, 2011.
- 10.17 Forms of Time-Vested Restricted Stock Unit Award Agreement and Performance Share Restricted Stock Unit Award Agreement between Fulton Financial Corporation and Certain Employees of the Corporation as of March 18, 2014 – Incorporated by reference to Exhibits 10.1 and 10.2, respectively, of the Fulton Financial Corporation Current Report on Form 8-K filed March 24, 2014.
- 10.18 Form of Master Confirmation between Fulton Financial Corporation and Goldman, Sachs & Co. - Incorporated by reference to Exhibit 10.1 of the Fulton Financial Corporation Current Report on Form 8-K filed November 17, 2014.

- 12 Computation of Consolidated Ratios of Earnings to Fixed Charges - filed herewith.
- 21 Subsidiaries of the Registrant.
- 23 Consent of Independent Registered Public Accounting Firm.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101 Interactive data file containing the following financial statements formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets at December 31, 2017 and December 31, 2016; (ii) the Consolidated Statements of Income for the years ended December 31, 2017, 2016 and 2015; (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015; (iv) the Consolidated Statements of Shareholders' Equity for the years ended December 31, 2017, 2016 and 2015; (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015; and, (iv) the Notes to Consolidated Financial Statements – filed herewith.

Exhibit 12

COMPUTATION OF CONSOLIDATED RATIOS OF EARNINGS TO FIXED CHARGES

	For the Year Ended December 31,				
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Earnings:					
Income before income taxes	\$ 234,454	\$ 208,249	\$ 199,423	\$ 210,500	\$ 212,925
Interest expense, including interest on deposits	93,502	82,328	83,795	81,211	82,495
Estimated interest component of net rental expense ⁽¹⁾	6,143	6,047	5,935	5,932	6,202
Amortization of debt discount (premium) and expenses, including amounts capitalized	855	617	585	334	315
Earnings	<u>334,954</u>	<u>297,241</u>	<u>289,738</u>	<u>297,977</u>	<u>301,937</u>
Less: Interest expense on deposits	(57,791)	(44,693)	(40,482)	(35,110)	(36,770)
Earnings, excluding interest on deposits	<u>\$ 277,163</u>	<u>v\$ 252,548</u>	<u>v\$ 249,256</u>	<u>\$ 262,867</u>	<u>\$ 265,167</u>
Fixed Charges:					
Interest expense, including capitalized interest	93,503	82,328	83,795	81,211	82,495
Interest portion of rent expense ⁽¹⁾	6,143	6,047	5,935	5,932	6,202
Amortization of debt discount (premium) and expenses, including amounts capitalized	855	617	585	334	315
Total fixed charges	<u>100,501</u>	<u>88,992</u>	<u>90,315</u>	<u>87,477</u>	<u>89,012</u>
Less: Interest expense on deposits	(57,791)	(44,693)	(40,482)	(35,110)	(36,770)
Earnings, excluding interest on deposits	<u>\$ 42,710</u>	<u>\$ 44,299</u>	<u>\$ 49,833</u>	<u>\$ 52,367</u>	<u>\$ 52,242</u>
Earnings to fixed charges:					
Including interest on deposits	3.33	3.34	3.21	3.41	3.39
Excluding interest on deposits	6.49	5.70	5.00	5.02	5.08

⁽¹⁾ The proportion, estimated at one-third, of rental expense deemed representative of interest.

The ratio of earnings to fixed charges is computed by dividing earnings by the aggregate of fixed charges. For purposes of computing these ratios, earnings consist of income before income taxes, plus fixed charges. Fixed charges consist of interest expense, the proportion, estimated at one-third, of rental expense deemed representative of interest, and amortization of premiums, discounts and capitalized expenses related to indebtedness.

Exhibit 21 - Subsidiaries of the Registrant

The following are the subsidiaries of Fulton Financial Corporation:

Subsidiary	State of Incorporation or Organization	Name Under Which Business is Conducted
Fulton Bank, N.A. One Penn Square P.O. Box 4887 Lancaster, Pennsylvania 17604	United States of America	FNB Bank, N.A. Fulton Financial Advisors Clermont Wealth Strategies Fulton Mortgage Company
Swineford National Bank 1255 North Susquehanna Trail P.O. Box 241 Hummels Wharf, Pennsylvania 17831	United States of America	Swineford National Bank Fulton Mortgage Company
Lafayette Ambassador Bank 2005 City Line Road Bethlehem, Pennsylvania 18017	Pennsylvania	Lafayette Ambassador Bank Fulton Mortgage Company
Fulton Financial Realty Company One Penn Square P.O. Box 4887 Lancaster, Pennsylvania 17604	Pennsylvania	Fulton Financial Realty Company
FNB Bank, N.A. 354 Mill Street P.O. Box 279 Danville, Pennsylvania 17821	United States of America	FNB Bank, N.A. Fulton Mortgage Company
Central Pennsylvania Financial Corp. 100 W. Independence Street Shamokin, PA 17872	Pennsylvania	Central Pennsylvania Financial Corp.
Fulton Bank of New Jersey 533 Fellowship Road Mt. Laurel, NJ 08054	New Jersey	Fulton Bank of New Jersey Fulton Mortgage Company

Exhibit 21 - Subsidiaries of the Registrant (Continued)

Subsidiary	State of Incorporation or Organization	Name Under Which Business is Conducted
FFC Management, Inc. P.O. Box 609 Georgetown, DE 19947	Delaware	FFC Management, Inc.
Fulton Insurance Services Group, Inc. One Penn Square P.O. Box 7989 Lancaster, Pennsylvania 17604	Pennsylvania	Fulton Insurance Services Group, Inc.
FFC Penn Square, Inc. P.O. Box 609 Georgetown, DE 19947	Delaware	FFC Penn Square, Inc.
The Columbia Bank 7168 Gateway Drive Columbia, MD 21046	Maryland	The Columbia Bank Fulton Mortgage Company
Columbia Bancorp Statutory Trust 7168 Gateway Drive Columbia, MD 21046	Delaware	Columbia Bancorp Statutory Trust
Columbia Bancorp Statutory Trust II 7168 Gateway Drive Columbia, MD 21046	Delaware	Columbia Bancorp Statutory Trust II
Columbia Bancorp Statutory Trust III 7168 Gateway Drive Columbia, MD 21046	Delaware	Columbia Bancorp Statutory Trust III

Exhibit 23

Consent of Independent Registered Public Accounting Firm

The Board of Directors

Fulton Financial Corporation:

We consent to the incorporation by reference in the registration statements (No. 333-05471, No. 333-05481, No. 333-44788, No. 333-81377, No. 333-64744, No. 333-76594, No. 333-76600, No. 333-76596, No. 333-107625, No. 333-114206, No. 333-116625, No. 333-121896, No. 333-126281, No. 333-131706, No. 333-135839, No. 333-145542, No. 333-168237, No. 333-175065, No. 333-189457, No. 333-128894 and No. 333-197728) on Form S-8 and on the registration statements (No. 333-37835, No. 333-61268, No. 333-123532, No. 333-130718, No. 333-156339, No. 333-189459, No. 333-189488, No. 333-156396, No. 333-197730 and No. 333-221393) on Form S-3 of Fulton Financial Corporation of our report dated March 1, 2018, with respect to the consolidated balance sheets of Fulton Financial Corporation as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the "consolidated financial statements"), and the effectiveness of internal control over financial reporting as of December 31, 2017, which report appears in the December 31, 2017 annual report on Form 10-K of Fulton Financial Corporation.

/s/ KPMG LLP

Philadelphia, Pennsylvania

March 1, 2018

Exhibit 31.1 – Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, E. Philip Wenger certify that:

1. I have reviewed this annual report on Form 10-K of Fulton Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2018

/s/ E. Philip Wenger

E. Philip Wenger
Chairman and Chief Executive Officer

Exhibit 31.2 – Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Philmer H. Rohrbaugh, certify that:

1. I have reviewed this annual report on Form 10-K of Fulton Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 1, 2018

/s/ Philmer H. Rohrbaugh

Philmer H. Rohrbaugh
Senior Executive Vice President and Chief Financial Officer

Exhibit 32.1 – Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, E. Philip Wenger, Chief Executive Officer of Fulton Financial Corporation, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, certify that:

The Form 10-K of Fulton Financial Corporation, containing the consolidated financial statements for the year ended December 31, 2017, fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934. The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Fulton Financial Corporation.

Dated: March 1, 2018

/s/ E. Philip Wenger

E. Philip Wenger
Chairman and Chief Executive Officer

Exhibit 32.2 – Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

I, Philmer H. Rohrbaugh, Chief Financial Officer of Fulton Financial Corporation, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, certify that:

The Form 10-K of Fulton Financial Corporation, containing the consolidated financial statements for the year ended December 31, 2017, fully complies with the requirements of Sections 13(a) or 15(d) of the Securities Exchange Act of 1934. The information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Fulton Financial Corporation.

Dated: March 1, 2018

/s/ Philmer H. Rohrbaugh

Philmer H. Rohrbaugh
Senior Executive Vice President and Chief Financial Officer

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INVESTOR INFORMATION

Investor Information Stock Listing

Common shares of Fulton Financial Corporation are traded under the symbol "FULT" and are listed in the NASDAQ Global Select Market.

Cash Dividends

The Fulton Financial Corporation Board of Directors decides whether to declare a quarterly cash dividend in the third month of each quarter (i.e., March, June, September and December).

Dividend Reinvestment Plan and Direct Deposit of Cash Dividends

Fulton Financial Corporation offers its shareholders the convenience of a Dividend Reinvestment and Stock Purchase Plan and direct deposit of cash dividends.

Holders of stock may have their quarterly dividends automatically reinvested in additional shares of the Corporation's common stock by utilizing the Dividend Reinvestment Plan.

Shareholders participating in the Plan may also make voluntary cash contributions not to exceed \$25,000 per month.

In addition, shareholders have the option of having their cash dividends sent directly to their financial institution for deposit into their checking or savings account.

Shareholders may receive information on either the Dividend Reinvestment Plan and Stock Purchase Plan, including a plan prospectus, or direct deposit of cash dividends by writing to:

Stock Transfer Department
Fulton Financial Advisors
P.O. Box 3215
Lancaster, PA 17604-3215
or by calling: 717-291-2546 or
toll-free: 1-800-626-0255.

GO GREEN!

Would you like to help your company manage expenses? Vote your shares online or by phone as outlined on the voter instruction form enclosed in this proxy packet.

Would you like to receive your proxy materials sooner? Sign up to receive your materials electronically when you vote your shares online at www.proxyvote.com.



Investor Information and Documents

A copy of the Corporation's Annual Report, Form 10-K, Proxy Statement and other documents filed with the Securities and Exchange Commission can be viewed on the Corporation's website at www.fult.com. In addition, copies of the Form 10-K and Proxy Statement may be obtained without charge to shareholders by writing to:

Corporate Secretary
Fulton Financial Corporation
P.O. Box 4887
Lancaster, PA 17604-4887

News, stock information, Corporate presentations and other information can be found on the Corporation's website at www.fult.com.

The Annual Meeting of Shareholders of Fulton Financial Corporation will be held on Monday, May 21, 2018, at 10:00 a.m. at the Lancaster Marriott at Penn Square in downtown Lancaster, PA.

To make a reservation, please return the Annual Meeting Reservation Form you received with your proxy statement. Your reservation will help ensure that we have adequate seating for all shareholders who plan to join us that day.

Banking Subsidiaries:

Fulton Bank, N.A.

Fulton Bank of New Jersey

Swineford National Bank

Lafayette Ambassador Bank

FNB Bank, N.A.

The Columbia Bank

Residential mortgage lending offered through:

Fulton Mortgage Company

Investment management and
planning services offered through:

Fulton Financial Advisors and

Clermont Wealth Strategies