

— 2018 —

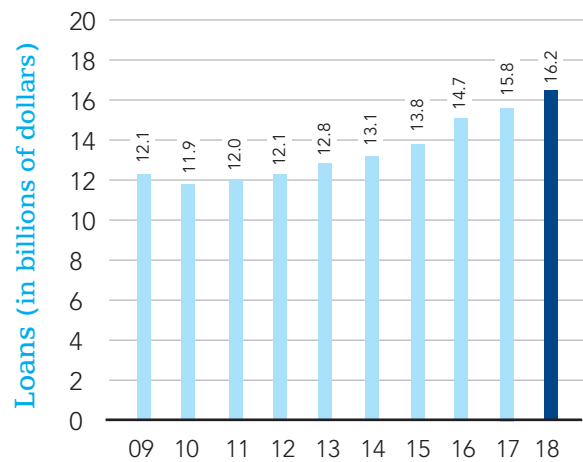
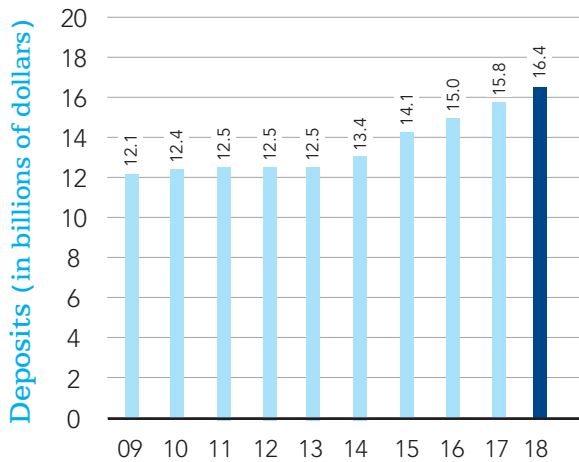
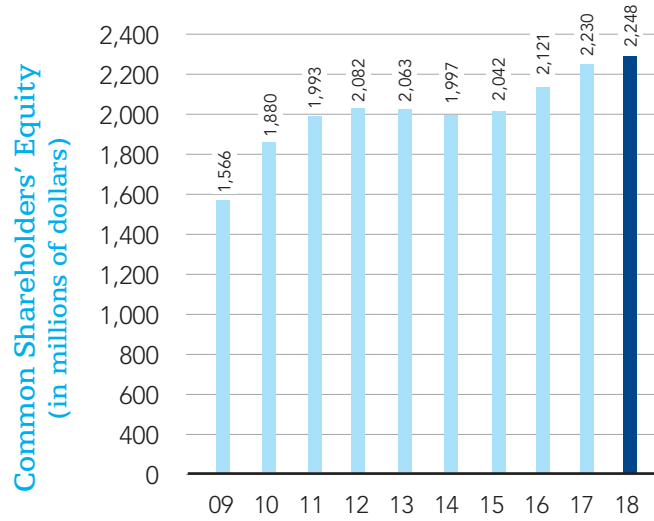
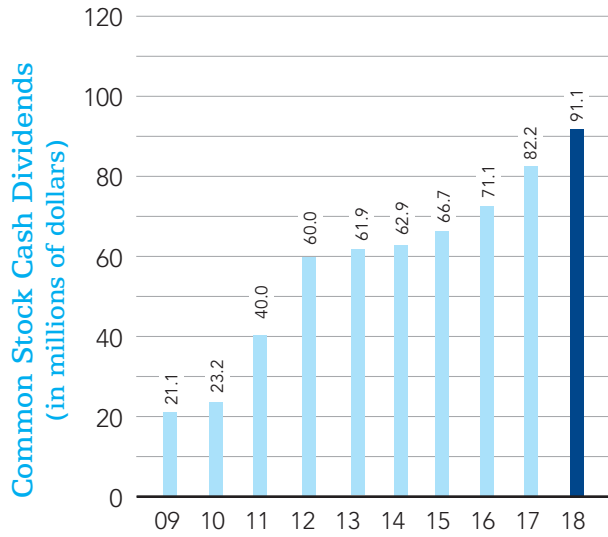
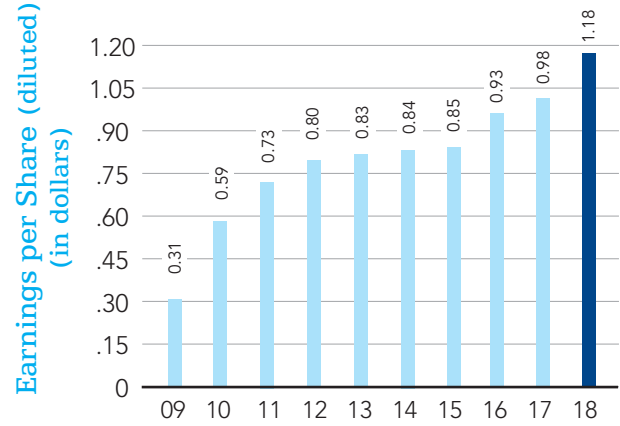
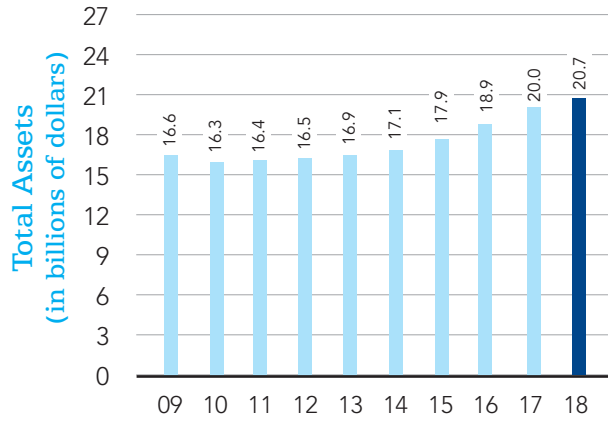
# ANNUAL REPORT

FULTON FINANCIAL CORPORATION



**FULTON FINANCIAL**  
CORPORATION

# 2009-2018



Dear Shareholder:

We change lives for the better. Six simple words that convey the purpose of our organization. During the year, we rallied our team members around that purpose, asking them to thoughtfully consider how their actions can impact our customers and change their lives by helping them achieve their financial goals while at the same time continuing to focus on driving shareholder value. In 2018, we were able to execute on our goals and objectives, while fulfilling this purpose, which translated into record levels of net income and revenue. Net income and revenue surpassed \$200 million and \$800 million, respectively, for the first time in our history.

On the corporate front, we hit two notable milestones. First, the Bank Secrecy Act and Anti-Money Laundering (“BSA/AML”) consent orders issued to our subsidiary banks in Maryland and New Jersey were terminated. This follows the terminations in 2017 of the consent orders issued to three of our other subsidiary banks. Second, we consolidated two of our subsidiary banks, FNB Bank, N.A. and Swineford National Bank, with our largest banking subsidiary, Fulton Bank, N.A. We have one BSA/AML consent order remaining, and we are confident that we are progressing toward achieving a similar resolution. Once that order is terminated, we will fully pursue our strategic priority of consolidating our remaining subsidiary banks with our flagship bank, Fulton Bank, N.A.

We continue to grow in Philadelphia and Baltimore. Both markets have a team of commercial and consumer lenders in place to help us take advantage of what we view as tremendous long-term growth opportunities. In Philadelphia, we opened a mortgage loan production office and three full-service branches in 2018 and early 2019. In Baltimore, we opened a mortgage loan production office in January 2019, and have plans to open full-service branch offices in the future.

Our Investment Management and Trust business had a strong year due to overall market performance and our continued asset gathering focus. Brokerage revenue grew 8.0% year-over-year,

and continues to be one of our fastest growing segments within the business. Recently, we had the opportunity to broaden our reach to serve additional clients in central Pennsylvania by purchasing a wealth management business located in Altoona, PA, adding approximately \$250 million of assets under management and administration to our brokerage platform. With that acquisition, our investment management and trust services business now has approximately \$11.0 billion in assets under management or administration, and we continue to look at other opportunities to keep growing that business.

We were pleased to see a decline in our efficiency ratio year-over-year. Since 2012, we have consolidated 37 branches<sup>1</sup>, or approximately 14% of our branch network. We believe there will be more opportunities to optimize our branch network over time and gain efficiencies as we react to changing customer preferences and behaviors. In addition, opportunities exist for efficiencies as we continue to upgrade our origination and servicing platforms, consolidate our bank charters and exit our BSA/AML order. While expense management is a top priority, and we continually look for ways to make our organization more efficient, we are also investing in our company to support a larger organization that can benefit from economies of scale.

Changing customer behavior and preferences has challenged the banking industry to rethink how we do business. More customers now prefer online and mobile to “branch banking”. Given this change, we have made significant investments over the past several years to enhance our digital capabilities, in both our consumer and commercial businesses. We launched a best-in-class commercial online banking platform, and have plans to launch a new commercial loan origination system in 2019. On the consumer side, we continue to upgrade our branch network to a new format that fosters a greater focus on the customer experience. The new format supports higher-value activities geared towards advice and sales and reflects the diminishing role of traditional teller transactions.

Strategically, the deployment of capital for the enhancement of long-term shareholder value remains one of our highest priorities. In 2018, we increased our quarterly common dividend by \$0.01 to \$0.12, and paid a \$0.04 special dividend in the 4th quarter. We also repurchased approximately \$95 million of our common stock during the year. In all, we distributed nearly 90% of our net income to shareholders in 2018.

As a shareholder, it is important that you know the strategic goals and objectives that your senior management team seeks to accomplish. In 2019, we will continue our focus on the following priorities:

**Growing the Company:**

- Investing in talent for growth in targeted markets and businesses
- Investing in digital and customer intelligence capabilities to acquire new relationships and cross-sell to existing clients
- Serving all segments of communities through the expansion of our Fulton Forward™ initiative, which focuses on four key areas: Affordable Housing and Home Ownership; Job Training and Workforce Development; Financial Education and Economic Empowerment; and Diversity and Inclusion
- Implementing new branch formats and expanding in urban markets

**Achieving Operational Excellence:**

- Advancing business line structure and charter consolidation
- Focusing on consistency and effectiveness across all operations areas through enterprise process design, improvement and automation
- Developing an enterprise technology strategy, including defining the future state platforms and execution roadmap

**Sustaining and Scaling Effective Risk and Compliance Activities:**

- Sustaining risk management, compliance and systems to ensure stakeholder expectations are met
- Implementing technology enhancements to automate controls and enable on-going monitoring

Our Board of Directors and management team look forward to meeting with shareholders at Fulton's Annual Shareholders Meeting in Lancaster, Pennsylvania on Tuesday, May 21st at 10 a.m. 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  
Fulton Financial Corporation

<sup>1</sup>Net of new branch openings

This letter contains forward-looking statements with respect to our financial condition, results of operations and business. 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," "projects," the negative of these terms and other comparable terminology. These forward looking statements may include projections of, or guidance on, our future financial performance, expected levels of future expenses, anticipated growth strategies, descriptions of new business initiatives and anticipated trends in our business or financial results.

Forward-looking statements are neither historical facts, nor assurance of future performance. Instead, they are based on current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions, and speak only as of the date when made. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of our control, and actual results and financial condition may differ materially from those indicated 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, 2018, 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, BOARDS OF DIRECTORS & ADVISORY BOARD MEMBERS

AS OF 12/31/2018

## FULTON FINANCIAL CORPORATION

### SENIOR MANAGEMENT

#### E. Philip Wenger

Chairman and Chief Executive Officer

#### Curtis J. Myers

President and Chief Operating Officer - Fulton Financial Corporation and Chairman, Chief Executive Officer, Chief Operating Officer and President - Fulton Bank, N.A

#### David M. Campbell

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

#### Angela M. Sargent

Senior Executive Vice President/Chief Information Officer

#### Angela M. Snyder

Senior Executive Vice President/Head of Consumer Banking 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

## FULTON FINANCIAL CORPORATION

### BOARD OF DIRECTORS

E. Philip Wenger, Chair

Lisa Crutchfield

Denise L. Devine

Patrick J. Freer

George W. Hodges

Albert Morrison, III, Retiring May 2019

James R. Moxley, III

R. Scott Smith, Jr., Retiring May 2019

Scott A. Snyder

Ronald H. Spair

Mark F. Strauss

Ernest J. Waters

### FULTON BANK, N.A.

#### BOARD OF DIRECTORS

Curtis J. Myers, Chair

Jennifer Craighead Carey

Steven S. Etter

Carlos E. Graupera

George W. Hodges

George Keith Martin

Ivy E. Silver

Ernest J. Waters

### FULTON BANK, N.A.

#### DIVISIONAL ADVISORY BOARDS

##### BRANDYWINE ADVISORY DIVISION

Andrew Stump, Chair

Harry DiDonato

Dallas Krapf

James D. McLeod, Jr.

Michael J. O'Rourke

Kathryn V. Snyder

##### CAPITAL ADVISORY DIVISION

Joseph F. Rilatt, Chair

James C. Byerly

Samuel T. Cooper III, Esq.

Justin D. McClure

Beth A. Peiffer

Steven C. Wilds

##### CENTRAL VIRGINIA ADVISORY DIVISION

Karen Frye, Chair

Robert H. Keiter, C.P.A.

George Keith Martin

J. Keith Middleton

Lloyd M. Poe

Robert E. Porter, Jr.

##### DELAWARE ADVISORY DIVISION

Katherine Wilkinson, Chair

Jeffrey M. Fried

Terry A. Megee

Ralph W. Simperts, Retiring May 2019

David T. Wilgus

##### GREATER BERKS ADVISORY DIVISION

Michele Richards, Chair

Eric G. Burkey

Marcelino Colon

William P. Gage

William G. Koch, Sr., C.P.A.

Chris G. Kraras

Diane Smith

### HAMPTON ROADS ADVISORY DIVISION

Jean Galliano, Chair

Joanna Brumsey

William L. Stauffer, Jr., Esq.

### LANCASTER ADVISORY DIVISION

Philip N. Smith, Chair

Galen Eby

Dean A. Hoover

Robert A. Hostetter

Louis G. Hurst

Cinthia M. Kettering

Tony Legenstein

Kent M. Martin

Edward W. Monborne

Lori Pickell

David W. Sweigart, III

Harold W. Weik, Jr.

John D. Yoder

J. David Young, Jr., Esq.

### LEBANON ADVISORY DIVISION

Kristen K. Watts, Chair

Barry E. Ansel

Jonathan R. Beers

Donald H. Dreibelbis

Robert J. Funk

Robert P. Hoffman

Wendie DiMatteo Holsinger

Kenneth C. Sandoe

### NORTHERN VIRGINIA ADVISORY DIVISION

Joe Durham, Chair

Thomas M. Crutchfield, C.P.A.

Manuel A. Ojeda

### PREMIER ADVISORY DIVISION

Lou Lombardi, Chair

Anthony D. Cino

Rosemary Espanol

Elmer F. Hansen, III

Robert Walton

### STATE COLLEGE ADVISORY DIVISION

Leslie P. Temple, Chair

Elizabeth A. Dupuis

Thomas J. Kearney

Jeffrey M. Krauss

Thomas F. Songer, III

**YORK ADVISORY DIVISION**

Krista Snyder Darr, Chair  
Vernon L. Bracey  
Kevin Eisenhart  
Jevon L. Holland  
Jeffrey L. Rehmeier, II  
Gary A. Stewart, Jr.  
Christine R. Wardrop

**PHILADELPHIA ADVISORY BOARD**

Sue Lonergan, Chair  
Gail Ball  
James Gould  
Ellis G Guiles  
Stephen D. Marshall  
Michael J. Mitchell  
Donn G. Scott

**NORTHERN PA REGIONAL  
ADVISORY BOARD**

Leslie Temple, Chair  
Albert Alley  
James D. Hawkins  
Kenneth A. Holdren  
William Robinson  
Daniel Rogers  
Wendy Tripoli

**AGRICULTURAL ADVISORY BOARD**

Ted Bowers, Chair  
James A. Angelucci  
Robert Barley  
Phoebe R. Bitler  
Andrew S. Bollinger  
Dennis L. Grumbine  
William Hostetter  
Aldus R. King  
Scott I. Sechler

**LAFAYETTE AMBASSADOR BANK  
BOARD OF DIRECTORS**

Meg R. Mueller, Chair  
Joseph A. Bubba  
Gary A. Clewell  
Thomas Daub  
Joseph R. Feilmeier  
Robert E. Gadomski  
Dolores Laputka  
Jamie P. Musselman

**FULTON BANK OF NEW JERSEY  
BOARD OF DIRECTORS**

Angela M. Snyder, Chair  
Christopher S. Bateman  
Dennis N. DeSimone  
Stephen R. Miller  
Antoinette Pergolin  
Anthony J. Santye, Jr.  
Mark F. Strauss  
Norman Worth

**FULTON BANK OF NEW JERSEY  
DIVISIONAL ADVISORY BOARD**

**CENTRAL REGION ADVISORY DIVISION**

Sean Murray, Chair  
Priscilla Luppke  
Paul Gergel  
Hetal Parikh  
George Robostello  
Rachel Lilienthal Stark  
Allen Weiss

**THE COLUMBIA BANK  
BOARD OF DIRECTORS**

John A. Scaldara, Jr., Chair  
Robert R. Bowie, Jr.  
Donald R. Harsh, Jr., Chair, Retiring March 2019  
James R. Moxley, III  
Mark A. Mullican  
Gregory Snook  
David K. Williams, Jr.  
Elizabeth M. Wright

**THE COLUMBIA BANK  
DIVISIONAL ADVISORY BOARDS**

**HAGERSTOWN ADVISORY DIVISION**

Donald R. Harsh, Jr., Chair, Retiring March 2019  
Joseph C. Durham  
Paul N. Crampton, Jr.  
Louis J. Giustini  
Doris E. Lehman  
Paul C. Mellott, Jr.  
Mark A. Mullican  
Gregory Snook  
Michael S. Zampelli

**ELKTON ADVISORY DIVISION**

Katherine Wilkinson, Chair  
Harry C. Brown, Retiring February 2019  
Donald S. Hicks  
Mark A. Mullican  
David K. Williams, Jr.

# FULTON FINANCIAL CORPORATION

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

## NOTICE OF ANNUAL MEETING OF SHAREHOLDERS TO BE HELD TUESDAY, MAY 21, 2019 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 Tuesday, May 21, 2019, 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 fourteen (14) director nominees to serve for one-year terms;
2. DIRECTOR COMPENSATION PLAN. A resolution to approve the Amended and Restated Directors’ Equity Participation Plan;
3. EXECUTIVE COMPENSATION PROPOSAL. A non-binding say on pay (“Say-on-Pay”) resolution to approve the compensation of the named executive officers for 2018;
4. RATIFICATION OF INDEPENDENT AUDITOR. The ratification of the appointment of KPMG LLP as Fulton’s independent auditor for the fiscal year ending December 31, 2019; and
5. 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, 2019, shall be entitled to be given notice of, to attend and to vote at the Annual 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 Annual 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](http://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 2, 2019

[This Page Intentionally Left Blank]



PROXY STATEMENT

Dated and To Be Mailed on or about: April 2, 2019

**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, 2019 AT 10:00 A.M.

TABLE OF CONTENTS

|   | PAGE      |
|---|-----------|
| <b>ANNUAL MEETING SUMMARY</b> .....   | <b>1</b>  |
| <b>GENERAL INFORMATION</b> .....  | <b>2</b>  |
| Introduction .....  | 2         |
| RSVP, Date, Time and Place of Meeting .....   | 2         |
| Shareholders Entitled to Vote and Attend Meeting .....                                    | 2         |
| Purpose of Meeting .....  | 2         |
| Solicitation of Proxies .....   | 3         |
| Revocability and Voting of Proxies .....  | 3         |
| Voting Shares Held in Street Name .....   | 4         |
| Voting of Shares and Principal Holders Thereof .....                                      | 4         |
| Internet Availability of Proxy Materials .....  | 5         |
| Recommendation of the Board of Directors .....  | 5         |
| Shareholder Proposals .....   | 5         |
| Contacting the Board of Directors .....   | 6         |
| Code of Conduct .....   | 6         |
| Corporate Governance Guidelines .....   | 6         |
| <b>SELECTION OF DIRECTORS</b> .....   | <b>7</b>  |
| General Information .....   | 7         |
| Majority Vote Standard .....  | 7         |
| Procedure for Shareholder Nominations .....   | 7         |
| Director Qualifications and Board Diversity .....   | 8         |
| <b>ELECTION OF DIRECTORS – Proposal One</b> .....   | <b>9</b>  |
| General Information .....   | 9         |
| 2019 Director Nominees .....  | 9         |
| Vote Required .....   | 9         |
| Recommendation of the Board of Directors .....  | 9         |
| Information about Nominees, Directors and Independence Standards .....                    | 9         |
| Director Nominee Biographical Information .....   | 10        |
| Current Fulton Directors Retiring at the 2019 Annual Meeting .....                        | 17        |
| Security Ownership of Directors, Nominees, Management and Certain Beneficial Owners ..... | 18        |
| <b>INFORMATION CONCERNING THE BOARD OF DIRECTORS</b> .....                                | <b>20</b> |
| Meetings and Committees of the Board of Directors .....                                   | 20        |
| Human Resources Committee Interlocks and Insider Participation .....                      | 20        |
| Other Board Committees .....  | 20        |
| Board’s Role in Risk Oversight .....  | 22        |
| Lead Director and Fulton’s Leadership Structure .....                                     | 23        |
| Executive Sessions .....  | 23        |
| Legal Proceedings .....   | 23        |
| Related Person Transactions .....   | 24        |
| Section 16(a) Beneficial Ownership Reporting Compliance .....                             | 25        |
| Board of Directors and Committee Evaluations .....  | 25        |
| Compensation of Directors .....   | 26        |
| Director Compensation Table .....   | 28        |

|   |                  |
|---|------------------|
| <b>RESOLUTION TO APPROVE THE AMENDED AND RESTATED DIRECTORS' EQUITY PARTICIPATION PLAN – PROPOSAL TWO</b> .....             | <b>29</b>        |
| Overview and Background of the Amended and Restated Directors' Equity Participation Plan .....                              | 29               |
| Key Terms and Purpose of the Amended and Restated Directors' Equity Participation Plan .....                                | 29               |
| Type of Awards .....  | 29               |
| Term, Termination and Amendment of the Amended and Restated Directors' Equity Participation Plan ..                         | 30               |
| Eligibility .....   | 31               |
| New Plan Benefits .....   | 31               |
| Current Equity Granting Practices .....   | 31               |
| Annual Individual Award Limitations .....   | 32               |
| Number of Awards that May be Made .....   | 32               |
| Rights with Respect to Shares .....   | 32               |
| Clawback of Awards .....  | 32               |
| Federal Income Tax Consequences .....   | 32               |
| Vote Required for Approval .....  | 33               |
| Recommendation of the Board of Directors .....  | 33               |
| <b>INFORMATION CONCERNING EXECUTIVE COMPENSATION</b> .....  | <b>34</b>        |
| Compensation Discussion and Analysis .....  | 34               |
| Section .....   | Page             |
| 1. Executive Summary .....  | 35               |
| 2. Shareholder Say-on-Pay Proposal Historical Results .....   | 37               |
| 3. Pay for Performance .....  | 37               |
| 4. Compensation Philosophy .....  | 39               |
| 5. HR Committee Membership and Role .....   | 40               |
| 6. Role of Management .....   | 40               |
| 7. Use of Consultants .....   | 41               |
| 8. Use of a Peer Group .....  | 41               |
| 9. Elements of Executive Compensation .....   | 42               |
| 10. Employment Agreements .....   | 49               |
| 11. Compensation Plan Risk Review .....   | 49               |
| 12. Other Compensation Elements .....   | 50               |
| Summary Compensation Table .....  | 52               |
| Grants of Plan-Based Awards Table .....   | 55               |
| Outstanding Equity Awards at Fiscal Year-End Table .....  | 56               |
| Option Exercises and Stock Vested Table .....   | 57               |
| Pension Benefits Table .....  | 57               |
| Nonqualified Deferred Compensation Table .....  | 58               |
| Potential Payments Upon Termination and Golden Parachute Compensation Table .....   | 59               |
| CEO Pay Ratio Disclosure .....  | 63               |
| <b>NON-BINDING SAY-ON-PAY RESOLUTION TO APPROVE THE COMPENSATION OF THE NAMED EXECUTIVE OFFICERS – Proposal Three</b> ..... | <b>64</b>        |
| Recommendation of the Board of Directors .....  | 64               |
| <b>RELATIONSHIP WITH INDEPENDENT PUBLIC ACCOUNTANTS</b> .....   | <b>65</b>        |
| <b>RATIFICATION OF INDEPENDENT AUDITOR – Proposal Four</b> .....  | <b>66</b>        |
| Recommendation of the Board of Directors .....  | 66               |
| <b>ADDITIONAL INFORMATION</b> .....   | <b>67</b>        |
| Annual Report on Form 10-K .....  | 67               |
| Householding of Proxy Materials .....   | 67               |
| Sign Up for Electronic Delivery .....   | 67               |
| <b>OTHER MATTERS</b> .....  | <b>68</b>        |
| <b>EXHIBITS</b>   |                  |
| Amended and Restated Directors' Equity Participation Plan .....   | Exhibit A ... 69 |
| Report of Audit Committee .....   | Exhibit B ... 83 |

ANNUAL MEETING SUMMARY

|   |  |   |   |   |
|---|--|---|---|---|
| <p><b>When and Where</b></p>                                  | <p>The Annual Meeting of the shareholders of Fulton (the “Annual Meeting”) will be held on Tuesday, May 21, 2019, 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 for the Annual Meeting consisting of four proposals, as described in the meeting notice and in more detail in this document, and such other business as may be properly brought before the Annual Meeting.</p>  |   |   |   |
| <p><b>Matters to be Voted on and Vote Recommendations</b></p> | <p><b><u>Proposal One (Page 9)</u></b><br/> <b>The election of the fourteen (14) director nominees identified in this Proxy Statement.</b></p>   |   | <p><b><u>Proposal Two (Page 29)</u></b><br/> <b>The approval of the Amended and Restated Directors’ Equity Participation Plan.</b></p>  |   |
|   | <p><b><u>Proposal Three (Page 64)</u></b><br/> <b>The approval of the non-binding Say-on-Pay resolution to approve the compensation of the named executive officers for 2018.</b></p>  |   | <p><b><u>Proposal Four (Page 66)</u></b><br/> <b>The ratification of the appointment of KPMG LLP as Fulton’s independent auditor for the fiscal year ending December 31, 2019.</b></p>  |   |
|   | <p>The Board of Directors recommends that shareholders vote <u>FOR</u> the election of each of the fourteen (14) director nominees identified in this Proxy Statement, <u>FOR</u> the approval of the Amended and Restated Directors’ Equity Participation Plan, <u>FOR</u> the approval of the non-binding Say-on-Pay resolution to approve the compensation of the named executive officers for 2018, and <u>FOR</u> the ratification of the appointment of KPMG LLP as Fulton’s independent auditor for the fiscal year ending December 31, 2019.</p>   |   |   |   |
| <p><b>How to Vote Your Shares</b></p>                         | <p> You can vote your shares via the Internet by visiting <a href="http://www.proxyvote.com">www.proxyvote.com</a> 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><b>Electronic Delivery</b></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 <a href="http://www.proxyvote.com">www.proxyvote.com</a> and have your proxy card and control number in hand when you access the website, then follow the instructions at <a href="http://www.proxyvote.com">www.proxyvote.com</a> 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: Fulton Bank, N.A., Fulton Bank of New Jersey, Lafayette Ambassador 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 Tuesday, May 21, 2019, 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](http://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](http://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, 2019, 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](http://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, 2019 (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 fourteen (14) director nominees to serve for one-year terms; (ii) the approval of the Amended and Restated Directors' Equity Participation Plan; (iii) the non-binding Say-on-Pay resolution to approve the compensation of the named executive officers for 2018; (iv) the ratification of the appointment of KPMG LLP as Fulton's independent auditor for the fiscal year ending December 31, 2019; and (v) 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 Tuesday, May 21, 2019, 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 Equiniti (US) Services 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 \$6,000, 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 fourteen (14) director nominees identified in this Proxy Statement, FOR the approval of the Amended and Restated Directors' Equity Participation Plan, FOR the approval of the non-binding Say-on-Pay resolution to approve the compensation of the named executive officers for 2018, and FOR the ratification of the appointment of KPMG LLP as Fulton's independent auditor for the fiscal year ending December 31, 2019. 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, 2019.

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), on the approval of the Amended and Restated Directors' Equity Participation Plan (Proposal 2 of this Proxy Statement), and on the non-binding Say-on-Pay resolution to approve the compensation of the named executive officers for 2018 (Proposal 3 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 Proposals 2 and 3 of this Proxy Statement, no votes will be cast on your behalf for the election of directors or Proposals 2 and 3. 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 4 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 169,886,915 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 2.23% 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.<sup>1</sup>

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 fourteen (14) 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 Amended and Restated Directors' Equity Participation Plan, the non-binding Say-on-Pay resolution to approve the compensation of the named executive officers for 2018 and the ratification of Fulton's independent auditor.

---

<sup>1</sup> 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 approval of the Amended and Restated Directors' Equity Participation Plan, the non-binding Say-on-Pay resolution to approve the compensation of the named executive officers for 2018, 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 approval of the Amended and Restated Directors' Equity Participation Plan, 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 18 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, 2019**

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, 2018 Annual Report on Form 10-K and proxy card) to some of Fulton's shareholders on the Internet at [www.proxyvote.com](http://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 2018 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 2018 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 2018 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](http://www.proxyvote.com).

This Proxy Statement and our 2018 Annual Report on Form 10-K also are available in the Investor Relations section of Fulton's website at [www.fult.com](http://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 fourteen (14) director nominees identified in this Proxy Statement, FOR the approval of the Amended and Restated Directors' Equity Participation Plan, FOR the approval of the non-binding Say-on-Pay resolution to approve the compensation of the named executive officers for 2018, and FOR the ratification of the appointment of KPMG LLP as Fulton's independent auditor for the fiscal year ending December 31, 2019.**

## Shareholder Proposals

Under SEC rules, shareholder proposals intended to be considered for inclusion in Fulton's Proxy Statement and form of proxy for the 2020 Annual Meeting must be received at the principal executive offices of Fulton at One Penn Square, Lancaster, Pennsylvania no later than December 4, 2019. In addition, any shareholder proposal not received at Fulton's principal executive offices by February 17, 2020, 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 2020 Annual Meeting. The shareholder, or a qualified representative, must attend the 2020 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 2020 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 last material update of Fulton's Code of Conduct was 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](http://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.

At a meeting in December 2018, Fulton's Board of Directors amended the Governance Guidelines, effective January 1, 2019, to increase the stock ownership guidelines for Fulton's non-employee directors from \$175,000 to \$300,000. See Stock Ownership Guidelines on Page 50 for additional information regarding the change and Fulton's stock ownership guidelines for non-employee directors and officers. 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](http://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 fourteen (14) as of Fulton's Annual Meeting. 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. Since Fulton's adoption of a majority vote standard, all directors have been elected by a majority of the votes cast at each annual meeting.

### 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 2020 Annual Meeting, this deadline date is December 4, 2019. 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 a variety of ways, including 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](http://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.

The Nominating and Corporate Governance Committee believes there is a balance between seasoned directors with knowledge of and insight into Fulton and its affiliate banks, and new directors who contribute fresh ideas, perspectives and viewpoints to the Board of Directors' deliberations. While the Board of Directors has not established term limits for Fulton directors, Fulton has a mandatory retirement age of seventy-two (72) for directors. The Nominating and Corporate Governance Committee reviews each director's age and continuation of service on the Board of Directors at the end of his or her term. The Nominating and Corporate Governance Committee members and the Board of Directors are focused on maintaining directors that provide increasing contributions to Fulton over time and have routinely considered candidates who first served on the board of directors of one of Fulton's subsidiary banks. The Nominating and Corporate Governance Committee reviews the composition of the Board of Directors at least annually to ensure that the Board of Directors reflects the appropriate balance of knowledge, experience, skills, expertise and diversity.

ELECTION OF DIRECTORS – PROPOSAL ONE

**General Information**

For the 2019 Annual Meeting, the Board of Directors has fixed the number of directors at fourteen (14). 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 fourteen (14) persons for election to the Board of Directors for a term of one year:

**2019 Director Nominees**

|                          |                     |                    |
|--------------------------|---------------------|--------------------|
| Jennifer Craighead Carey | Lisa Crutchfield    | Denise L. Devine   |
| Steven S. Etter          | Patrick J. Freer    | Carlos E. Graupera |
| George W. Hodges         | James R. Moxley III | Curtis J. Myers    |
| 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, with the exception of Ms. Craighead Carey, Mr. Etter, Mr. Graupera and Mr. Myers, each of whom currently serves on the board of directors of Fulton Bank, N.A. 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 2019 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 fourteen (14) 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 fourteen (14) 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 fourteen (14) persons nominated by Fulton for election to the Board of Directors at the 2019 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 fourteen (14) director nominees are independent, as defined in the applicable NASDAQ listing standards. Specifically, the Board of Directors found that director nominees Crutchfield, Devine, Etter, Freer, Graupera, Hodges, Moxley, 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, the current 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 24.

## 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.

### JENNIFER CRAIGHEAD CAREY - Age: 50

- 2019 Annual Meeting Nominee
- Fulton Bank, N.A. Director since 2012
- 2018 – 2019 Fulton Committees: Special Joint Board Compliance – Representing Fulton Bank, N.A.



Ms. Craighead Carey has been a partner of Barley Snyder LLP since 2001, and has chaired the firm's Employment Law group since 2005. She concentrates her practice in the areas of labor and employment law, as well as school law. She regularly provides advice to employers on a myriad of employment issues and has handled numerous labor arbitrations both in the public and in private sector.

She has handled cases at both the administrative level and routinely handles litigation in the Federal District Courts in both the Eastern and Middle Districts of Pennsylvania. Ms. Craighead Carey regularly practices before the Pennsylvania Human Relations Commission (PHRC) and the Equal Employment Opportunity Commission (EEOC) as well as administrative agencies throughout the country, handling all manner of discrimination and retaliation claims. Ms. Craighead Carey is a graduate of Dickinson School of Law, with a J.D., cum laude, a comment writer for the Dickinson Law

Review, a member of the Woolsack Honor Society recognizing superior academic achievement, and a member of Minority Law Students Association. She has received the designation of being a "Pennsylvania Super Lawyer" from 2010 through 2018.

Ms. Craighead Carey is active in the community and a board member of the Lancaster Chamber of Commerce & Industry since 2017 and a past chair of United Way of Lancaster County. She has been a director of Fulton Bank, N.A. since 2012, a bank representative on the Special Joint Board Compliance Committee and has over 20 years of legal, risk management, and employment experience. In addition, she is familiar with the markets in which Fulton operates.

### LISA CRUTCHFIELD - Age: 56

- 2019 Annual Meeting Nominee and Independent
- Fulton Director since 2014
- 2018 – 2019 Fulton Committees: Executive – Member; Nominating and Corporate Governance – Chair; and 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 Unitil 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 - Age: 63**

- 2019 Annual Meeting Nominee and Independent
- Fulton Director since 2012
- 2018 – 2019 Fulton Committees: Audit - Member and financial expert; Executive – Member; and 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 served as a member of the Board of Trustees of Lourdes

Health System since 2010. She has served on the Board of Ben Franklin Technology Partners of Southeastern Pennsylvania since 2016 and was appointed to the Board of Ben Franklin Technology Development Authority in 2018. 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.

**STEVEN S. ETTER - Age: 65**

- 2019 Annual Meeting Nominee and Independent
- Fulton Bank, N.A. Director since 2012
- 2018 – 2019 Fulton Committees: None



Since 2014, Mr. Etter has been the President and CEO of Harrisburg News Company, a division of Hudson News Distributors LLC, which is a regional magazine, book and newspaper wholesale distribution company. Prior to its consolidation with Hudson News, Mr. Etter served from 1998 to 2014 as the President and CEO of Harrisburg News Company.

A graduate of the University of Miami with a B.A. in finance and marketing, he is a member of its President’s Council, which is comprised of a select advisory group of prominent alumni. Mr. Etter also is an Emeritus Director of the Whitaker Center for Science and the Arts, a non-profit center for the arts, education, entertainment and cultural enrichment, located in Harrisburg, Pennsylvania. Mr. Etter has been active in numerous business endeavors, professional associations, charitable and community organizations during his long career, including serving as a former board member of

WITF, a public radio and television station that broadcasts in central Pennsylvania.

As a Chief Executive Officer and successful business owner, Mr. Etter brings extensive business skills, financial expertise and regional market knowledge to Fulton’s Board of Directors. Mr. Etter has been a director of Fulton Bank, N.A since 2012, and prior to joining the bank board, he was a long-time member of Fulton’s Harrisburg Advisory Board.

**PATRICK J. FREER - Age: 69**

- 2019 Annual Meeting Nominee and Independent
- Fulton Director since 1996
- 2018 – 2019 Fulton Committees: Human Resources – Member; and Nominating and Corporate Governance Committee – Vice Chair



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 extensive knowledge of insurance, investments, finance and risk management, as well as valuable knowledge of Fulton through his tenure 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.

**CARLOS E. GRAUPERA - Age: 69**

- 2019 Annual Meeting Nominee and Independent
- Fulton Bank, N.A. Director since 2006
- 2018 – 2019 Fulton Committees: None



Since 1973, Mr. Graupera has been the Chief Executive Officer and Executive Director of the Spanish American Civic Association (“SACA”), a Lancaster, Pennsylvania based non-profit. SACA is a Latino founded and managed community-based organization whose mission is to enable the community it serves to integrate itself into the social, economic, and political mainstream of life. Towards this end, SACA provides case management, employment, behavioral health, services to the elderly, continuing education, vocational training, and services to at-risk youth. SACA also operates WLCH, a radio station, and TeleCentro, a cable television station, along with a number of subsidiary entities to assist in SACA’s Latino community efforts.

Mr. Graupera has been a director of the La Academia Partnership Charter School since 1999. The school is the only tuition-free charter school in Lancaster County, and offers students in grades 6 through 12 a unique opportunity to focus on 21st century learning. It has a five-year goal of becoming a dual-language school with a STEM focus.

Mr. Graupera is very active in the Lancaster community, and has substantial community development, management, business and finance experience, which provides a diverse and valuable set of outside experience and skill to Fulton’s Board of Directors and Fulton Bank, N.A. where he has served as a director since 2006.

**GEORGE W. HODGES - Age: 68**

- 2019 Annual Meeting Nominee and Independent
- Fulton Director since 2001 and director of Fulton Bank, N.A. since 2012
- 2018 – 2019 Fulton Committees: Audit - Member and financial expert; Executive – Vice Chair; and Human Resources – Member



Mr. Hodges has been a director of Fulton since 2001, and served as Fulton’s Lead Director from 2010 until June 2018. 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.

In addition, Mr. Hodges has served as a director of Fulton Bank N.A. since 2012 and was a director of Drovers & Mechanics Bank, until it was merged into Fulton Bank, N.A. in 2001.

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

**JAMES R. MOXLEY III (Independent Lead Director) Age: 58**

- 2019 Annual Meeting Nominee and Independent
- Fulton Director since 2015 and director of The Columbia Bank since 1999
- 2018 – 2019 Fulton Committees: Executive – Chair; Nominating and Corporate Governance – Member; Risk – Chair; and Special Joint Board Compliance - Member



Mr. Moxley currently serves as Fulton’s Lead Director. 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 is a past 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. He has completed the requirements and has been recognized by the NACD as a Board Leadership Fellow since 2018. 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.

**CURTIS J. MYERS (President and COO of Fulton) Age: 50**

- 2019 Annual Meeting Nominee
- Fulton Bank, N.A. director since 2009
- 2018 – 2019 Fulton Committees: Special Joint Board Compliance – Representing Fulton Bank, N.A.



Mr. Myers has been the President and Chief Operating Officer of Fulton Financial Corporation since January 1, 2018. He first became an executive officer of Fulton Financial Corporation in July 2013 and has held a number of executive positions with Fulton since 1990.

He is also the Chairman, Chief Executive Officer, Chief Operating Officer and President of Fulton Bank, N.A. He was promoted to Chairman and Chief Executive Officer in May 2018 and became the President and Chief Operating Officer of Fulton Bank, N.A. in 2009. He has served as a director of Fulton Bank, N.A. since 2009, and currently serves as a representative of Fulton Bank, N.A. on the Special Joint Board Compliance Committee.

Mr. Myers has participated in a number of industry organizations and has been active in the local community for many years. He has been involved with the Pennsylvania Bankers Association, is a past chair of the American Heart Association of Lancaster County, a past board member of the YMCA of Lancaster County, and a past board member of the United Way of Lancaster County. He has served as the Treasurer of the Fulton Theatre Company since 2011, a director of TEC Centro since 2017, and is the current chair of the Salvation Army (Lancaster) for which he has been a director of this local non-profit since 1995.

Mr. Myers brings a myriad of banking knowledge, executive leadership, financial expertise and other valuable skills to Fulton's Board of Directors. He holds a Bachelor of Science in Business Administration from Shippensburg University and a Master's degree in Business Administration from Saint Joseph's University. He is also a graduate of the Stonier Graduate School of Banking.

**SCOTT A. SNYDER, PhD - Age: 53**

- 2019 Annual Meeting Nominee and Independent
- Fulton director since 2016
- 2018 – 2019 Fulton Committees: Nominating and Corporate Governance – Member; and Risk - Vice Chair



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.

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 - Age: 63**

- 2019 Annual Meeting Nominee and Independent
- Fulton director since 2015
- 2018 – 2019 Fulton Committees: Audit – Chair and financial expert; Executive – Member; and Human Resources – Member



Mr. Spair 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. In June 2018, he retired from the board and as an officer of OraSure Technologies, Inc.

From 2013 to May 2018 Mr. Spair 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 - Age: 67**

- 2019 Annual Meeting Nominee and Independent
- Fulton director since 2016 and director of Fulton Bank of New Jersey since 2011
- 2018 – 2019 Fulton Committees: Human Resources – Vice Chair; Nominating and Corporate Governance – Member; and Special Joint Board Compliance – Vice Chair



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, prior to his retirement from American Water Works Company he was an attorney licensed to practice law in New Jersey.

**ERNEST J. WATERS - Age: 69**

- 2019 Annual Meeting Nominee and Independent
- Fulton director since 2012 and director of Fulton Bank, N.A. since 2011
- 2018 – 2019 Fulton Committees: Audit - Member and financial expert; Executive – Member; Risk – Member; and 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 of Fulton) Age: 61**

- 2019 Annual Meeting Nominee
- Fulton director since 2009
- 2018 – 2019 Fulton Committees: Executive – Member; and Special Joint Board Compliance – Member



Mr. Wenger became Chairman of the Board and Chief Executive Officer of Fulton Financial Corporation effective on January 1, 2013. He also served as President from 2008 to 2017, and Chief Operating Officer of Fulton Financial Corporation from 2008 to 2012. Mr. Wenger was 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 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 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 and a former board member on the Lancaster County YMCA Foundation and Crispus Attucks Community Center.

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.

**Current Fulton Directors Retiring at the 2019 Annual Meeting**

Directors Albert Morrison III and R. Scott Smith, Jr., will not stand for election at the 2019 annual meeting and will retire from Fulton’s Board of Directors upon the expiration of their 2018 – 2019 one-year terms. We thank both of them for their many years of dedicated service to the Board of Directors and Fulton.

**ALBERT MORRISON III - Age: 72**

- Independent Director retiring from the Fulton Board at the 2019 Annual Meeting
- Fulton director since 2012
- 2018 – 2019 Fulton Committees: Audit - Vice Chair and financial expert; Risk Committee – Member; and Special Joint Board Compliance – Member



From 2002 to April 2018, Mr. Morrison 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.

**R. SCOTT SMITH, JR. - Age: 72**

- Independent Director retiring from the Fulton Board at the 2019 Annual Meeting
- Fulton director since 2001
- 2018 – 2019 Fulton Committees: Risk – Member



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, N.A. 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. In addition, Mr. Smith continues to be active in the Lancaster community.

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

The following table sets forth the number of shares of common stock beneficially owned<sup>1</sup> as of the Record Date, the latest practicable date, by each director, director nominee, and the named executive officers, Mr. Wenger, Mr. McCollom, Mr. Myers, Ms. Snyder, Ms. Mueller and Mr. Rohrbaugh, (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, each director nominee and each Executive are held individually by the person. The directors, director nominees, the Executives and other executive officers of Fulton, as a group, owned of record and beneficially 1,726,959 shares of Fulton common stock, representing 1.02% of such shares then outstanding. Shares representing less than one percent of the outstanding shares are shown with a “\*” below.

| <u>Director, Nominee and Management Beneficial Owners</u>                          | <u>Title</u>  | <u>Total Number of Shares Beneficially Owned</u> <sup>2 3 4</sup> | <u>% of Class</u> |
|--|---|---|-------------------|
| <b>Jennifer Craighead Carey</b>  | Nominee   | 143   | *                 |
| <b>Lisa Crutchfield</b>  | Director and Nominee  | 11,938  | *                 |
| <b>Denise L. Devine</b>  | Director and Nominee  | 19,000 <sup>5</sup>   | *                 |
| <b>Steven H. Etter</b>   | Nominee   | 190,000   | *                 |
| <b>Patrick J. Freer</b>  | Director and Nominee  | 116,439 <sup>6</sup>  | *                 |
| <b>Carlos E. Graupera</b>  | Nominee   | 10,861  | *                 |
| <b>George W. Hodges</b>  | Director and Nominee  | 42,922 <sup>7</sup>   | *                 |
| <b>Albert Morrison III</b>   | Director  | 36,457 <sup>8</sup>   | *                 |
| <b>James R. Moxley III</b>   | Director and Nominee  | 130,914 <sup>9</sup>  | *                 |
| <b>R. Scott Smith, Jr.</b>   | Director  | 271,948 <sup>10</sup>   | *                 |
| <b>Scott A. Snyder</b>   | Director and Nominee  | 6,540   | *                 |
| <b>Ronald H. Spair</b>   | Director and Nominee  | 19,072 <sup>11</sup>  | *                 |
| <b>Mark F. Strauss</b>   | Director and Nominee  | 24,075 <sup>12</sup>  | *                 |
| <b>Ernest J. Waters</b>  | Director and Nominee  | 28,468 <sup>13</sup>  | *                 |
| <b>E. Philip Wenger</b>  | Director, Nominee, Chairman of the Board and Chief Executive Officer                                  | 333,525 <sup>14</sup>   | *                 |
| <b>Mark R. McCollom</b>  | Senior Executive Vice President and Chief Financial Officer   | 0 <sup>15</sup>   | *                 |
| <b>Curtis J. Myers</b>   | Nominee, President and Chief Operating Officer  | 137,123 <sup>16</sup>   | *                 |
| <b>Angela M. Snyder</b>  | Senior Executive Vice President and Head of Consumer Banking  | 10,245  | *                 |
| <b>Meg R. Mueller</b>  | Senior Executive Vice President and Head of Commercial Business                                       | 73,052 <sup>17</sup>  | *                 |
| <b>Philmer H. Rohrbaugh</b>  | Retired Senior Executive Vice President and Chief Financial Officer                                   | 90,001 <sup>18</sup>  | *                 |
| <b>Total Ownership</b>   | Directors, Director Nominees, Named Executive Officers and executive officers as a Group (25 Persons) | 1,726,959   | 1.02%             |
| <b><u>Beneficial Owners Holding More than 5%</u></b>                               |   |   |                   |
| <b>BlackRock, Inc.</b> <sup>19</sup><br>55 East 52nd Street<br>New York, NY 10055  | N/A   | 20,809,031  | 11.8%             |
| <b>The Vanguard Group</b> <sup>20</sup><br>100 Vanguard Blvd.<br>Malvern, PA 19355 | N/A   | 17,109,382  | 10.07%            |

| <b><u>Beneficial Owners</u></b><br><b><u>Holding More than 5%</u></b>  | <b><u>Title</u></b> | <b><u>Total Number</u></b><br><b><u>of Shares</u></b><br><b><u>Beneficially Owned</u></b> <sup>2 3 4</sup> | <b><u>% of</u></b><br><b><u>Class</u></b> |
|--|---------------------|--|---|
| <b>Dimensional Fund<br/>Advisors LP<sup>21</sup><br/>Building One,<br/>6300 Bee Cave Road<br/>Austin, TX 78746</b> | N/A                 | 14,264,562   | 8.10%                                     |

<sup>1</sup> 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.

<sup>2</sup> Includes 127,551 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.

<sup>3</sup> As of the Record Date, none of the listed individuals had pledged Fulton stock and Fulton's Insider Trading Policy currently prohibits the pledging of shares by Fulton directors and Executives.

<sup>4</sup> Fulton has established stock ownership guidelines for Fulton directors and certain officers. As of December 31, 2018, Fulton non-employee directors were required to hold \$175,000 of eligible Fulton stock for 2018, and this stock ownership guideline amount was increased to \$300,000 as of January 1, 2019. The stock ownership guidelines for officers remained unchanged for 2019. All non-employee directors and the Executives are in compliance with Fulton's stock ownership guidelines. See a description of Fulton's stock ownership guidelines on Page 50.

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

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

<sup>7</sup> Mr. Hodges' ownership includes 21,430 shares held in a 401(k) plan, 200 shares held in Irrevocable Trust for children and 8,091 shares held by The Hodges Family Foundation, Inc. Mr. Hodges has disclaimed beneficial ownership of the shares held by The Hodges Family Foundation, Inc.

<sup>8</sup> Mr. Morrison will be seventy-two (72) years old as of the date of the Annual Meeting and is not eligible to be nominated for election as a director. He will retire from the Board of Directors when his current term ends at the Annual Meeting.

<sup>9</sup> Mr. Moxley's ownership includes 39,115 shares held by The Moxley Family Trust, 1,110 shares held solely by his spouse, 16,642 shares held by Mr. Moxley as custodian for his children and 20,000 shares held in a 401(k) plan.

<sup>10</sup> Mr. Smith's ownership includes 245,444 shares held jointly with his spouse. He will be seventy-two (72) years old as of the date of the Annual Meeting and is not eligible to be nominated for election as a director. Mr. Smith will retire from the Board of Directors when his current term ends at the Annual Meeting.

<sup>11</sup> Mr. Spair's ownership includes 10,000 shares held jointly with his spouse.

<sup>12</sup> Mr. Strauss' ownership includes 4,800 shares held jointly with his spouse and 6,426 shares held in an IRA.

<sup>13</sup> Mr. Waters' ownership includes 10,395 shares held in an IRA.

<sup>14</sup> Mr. Wenger's ownership includes 144,297 shares held jointly with his spouse and 82,307 shares held in Fulton's 401(k) Plan. Also includes 3,161 shares held in Fulton's 401(k) Plan by his spouse and 351 shares held by Mr. Wenger as custodian for his children.

<sup>15</sup> 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.

<sup>16</sup> Mr. Myers' ownership includes 46,710 shares held in Fulton's 401(k) Plan, 47,173 shares which may be acquired pursuant to the exercise of vested stock options and 13,525 shares held jointly with his spouse.

<sup>17</sup> Ms. Mueller's ownership includes 10 shares held jointly with her spouse.

<sup>18</sup> Mr. Rohrbaugh's ownership includes 47,442 shares held jointly with his spouse. Mr. Rohrbaugh retired as Chief Financial Officer of Fulton effective as of March 2, 2018 and Senior Executive Vice President effective as of March 30, 2018.

<sup>19</sup> This information is based solely on a Schedule 13G filed with the SEC on January 28, 2019 by BlackRock, Inc., which reported sole voting power as to 20,384,161 shares and sole dispositive power as to 20,809,031 shares, as of December 31, 2018.

<sup>20</sup> This information is based solely on a Schedule 13G/A filed with the SEC on March 11, 2019 by The Vanguard Group, which reported sole voting power as to 168,673 shares and sole dispositive power as to 16,936,855 shares, shared voting power as to 20,214 shares and shared dispositive power as to 172,527 shares, as of February 28, 2019.

<sup>21</sup> This information is based solely on a Schedule 13G filed with the SEC on February 8, 2019 by Dimensional Fund Advisors LP, which reported sole voting power as to 13,972,108 shares and sole dispositive power as to 14,264,562 shares, as of December 31, 2018.

## INFORMATION CONCERNING THE BOARD OF DIRECTORS

### Meetings and Committees of the Board of Directors

There were eleven (11) regular and special meetings of the Board of Directors of Fulton and fifty-five (55) meetings of the committees of the Board of Directors of Fulton during 2018. 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 2018.

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:

| Current Directors<br>2018-2019 Fulton<br>Committee Members | Audit      | Executive  | Human<br>Resources | Nominating<br>and Corporate<br>Governance | Risk       | Compliance ** |
|--|------------|------------|--------------------|---|------------|---------------|
| Lisa Crutchfield   |            | Member     |                    | Chair                                     | Member     |               |
| Denise L. Devine   | Member     | Member     | Chair              |   |            |               |
| Patrick J. Freer   |            |            | Member             | Vice Chair                                |            |               |
| George W. Hodges   | Member     | Vice Chair | Member             |   |            |               |
| Albert Morrison III  | Vice Chair |            |                    |   | Member     | Member        |
| James R. Moxley III  |            | Chair      |                    | Member                                    | Chair      | Member        |
| R. Scott Smith, Jr.  |            |            |                    |   | Member     |               |
| Scott A. Snyder  |            |            |                    | Member                                    | Vice Chair |               |
| Ronald H. Spair  | Chair      | Member     | Member             |   |            |               |
| Mark F. Strauss  |            |            | Vice Chair         | Member                                    |            | Vice Chair    |
| Ernest J. Waters   | Member     | Member     |                    |   | Member     | Chair         |
| E. Philip Wenger   |            | Member     |                    |   | Member *   | Member        |

\* Ex-officio member per bylaws.

\*\* Director Nominees Mr. Myers and Ms. Craighead Carey are currently directors of Fulton Bank, N.A. and represent Fulton Bank, N.A. on Fulton’s Compliance Committee.

### 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 34. 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 24. 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 nine (9) times in 2018. The HR Committee is governed by a formal charter, which was last amended in July 2018, and which is available on Fulton’s website at [www.fult.com](http://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 seventeen (17) times during 2018.

The Audit Committee is governed by a formal charter, which was last amended in July 2018, and which is available on Fulton’s website at [www.fult.com](http://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 2018 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 B.

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 2018.

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 2018, and is available on Fulton’s website at [www.fult.com](http://www.fult.com).

Executive Committee. The Executive Committee did not meet during 2018. 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 2018. 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. The Risk Committee Chair is an independent director and 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 2018, and is available on Fulton’s website at [www.fult.com](http://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, 2018, for additional information regarding the BSA/AML enforcement orders. The Compliance Committee is comprised of five (5) Fulton directors and directors from each of Fulton’s subsidiary banks, including Ms. Craighead Carey and Mr. Myers as representatives from Fulton Bank, N.A. The Compliance Committee met twelve (12) times during 2018.

## Board's Role in Risk Oversight

While each of Fulton's committees is 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.



### **Lead Director and Fulton’s Leadership Structure**

Director Hodges served as Fulton’s Lead Director and was the independent Chair of the Executive Committee until June 2018. Director Moxley was appointed as Fulton’s Lead Director and the independent Chair of the Executive Committee in June 2018. He is also a member of the Nominating and Corporate Governance Committee, the Compliance Committee and Chair of the Risk 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, during 2018 approximately 92% of Fulton’s directors (11 out of 12) were determined to be 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 eight (8) times in executive session in 2018 at which only independent directors were present. Fulton’s 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 2018 Annual Meeting, except for Director Scott Snyder, whose attendance at the 2018 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, Moxley and Waters have each completed the requirements for the NACD Board Leadership Fellow Program for 2018 and prior years. In order to become NACD Board Leadership 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 available for corporate directors.

### **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 2018. 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. Fulton may have engaged in various transactions on customary terms with companies where directors, nominees or officers and immediate family members may be directors, officers, partners, or employees and it is possible that Fulton's directors, nominees and executive officers may not have knowledge of those transactions. During 2018, Fulton did not have any related person transactions in excess of \$120,000 requiring specific disclosure, except for the direct payment of fees to Barley Snyder LLP in the amount of \$2.35 million. Jennifer Craighead Carey is a director nominee for the Annual Meeting and was a partner with less than a 10% interest in the law firm of Barley Snyder LLP during 2018. The payment to Barley Snyder LLP represents the total direct amount paid for all invoices processed by Fulton and its subsidiaries during 2018. Ms. Craighead Carey was not directly engaged as counsel for any Fulton matter, nor did she bill any hours on Fulton engagements during 2018. Fulton anticipates engaging Barley Snyder LLP for legal services in the future.

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 fourteen (14) director nominees, or approximately 79% of the director nominees who are standing for election at the 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 2018, there were no family relationships requiring disclosure among any of the members of the Board of Directors, board nominees and executive officers of Fulton, except for Mr. Craig A. Roda, a brother-in-law of Mr. Wenger, was employed by Fulton. In 2018, Mr. Roda received annual compensation, consisting of base salary, equity awards and cash bonus, with a total value of approximately \$614,000, plus other benefits on the same basis as other similarly situated employees. Mr. Roda retired as a Senior Executive Vice President of Fulton in May 2018. In addition, as of December 31, 2018, other family relationships existed among executive officers and some of the approximately 3,500 full-time equivalent 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 2019, the Audit Committee reviewed and approved a report of all potential related person transactions identified during 2018 involving Fulton’s directors, nominees, 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 2018 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 2018, except for a Form 4 inadvertently filed late by Ernest J. Waters on May 24, 2018 reporting the purchase of 2,000 shares of Fulton common stock on April 27, 2018.

### **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 2018. The results were compiled by Fulton’s in-house corporate counsel and presented to the Nominating and Corporate Governance Committee in December 2018, 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 2018 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 Equity Plan"). The equity compensation paid to non-employee directors during 2018 was in the form of shares of Fulton common stock that had no restriction or vesting requirements. During 2018, the 2011 Director Equity Plan provided 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 2018 for serving as a member of the Board of Directors.

The Board of Directors reviews Fulton's non-employee director compensation annually with the assistance of the HR Committee and a report from the HR Committee's independent compensation consultant. In 2017, the Board of Directors increased the annual equity retainer paid to non-employee members of the Board of Directors from \$35,000 to \$50,000 per year. In late 2018, the HR Committee sought recommendations and a peer group analysis from Frederic W. Cook & Co., Inc. ("FW Cook"), the HR Committee's independent compensation consultant, as it evaluated the 2018 amount and structure of Fulton's non-employee director compensation. Following this review, the Board of Directors approved, effective January 1, 2019, the elimination of Board of Directors and standing committee meeting attendance fees, an increase in the quarterly cash retainer from \$8,750 to \$17,500, and provided non-employee directors with the ability to defer equity awards to retirement as described below. In conjunction with the director compensation changes, the Nominating and Corporate Governance Committee increased the non-employee director stock ownership guideline from \$175,000 to \$300,000, as outlined under Stock Ownership Guidelines on Page 50.

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 during service as 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 non-employee directors of Fulton who have established accounts to defer a portion of the cash fees paid to them in 2018 are Directors Devine, Freer, Smith, Spair and Waters. Certain directors of Fulton also serve on the boards of Fulton's 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 Director Compensation Table on Page 28.

The structure and amounts of compensation paid to non-employee directors for service on the Board of Directors and its committees during 2018 were as follows:

| 2018 Non-employee Director Fees                                     | Amount  |
|---|---|
| Quarterly director retainer   | \$8,750 in cash   |
| Additional quarterly retainer paid to the Lead Director             | \$7,500 in cash   |
| Additional quarterly retainer paid to committee chairs <sup>1</sup> | \$3,125 in cash   |
| Board meeting attendance fee  | \$2,000 in cash per meeting attended                    |
| Standing committee meeting attendance fee <sup>2</sup>              | \$1,000 in cash per meeting attended                    |
| Compliance Committee meeting attendance fee                         | \$1,000 in cash per meeting attended                    |
| Annual equity retainer <sup>3</sup>                                 | Fulton common stock equivalent to \$50,000 <sup>4</sup> |
| Educational and seminar attendance fee <sup>5</sup>                 | \$1,000 in cash per day                                 |

Effective January 1, 2019, Fulton updated the structure and amounts of compensation to be paid to non-employee directors for service on the Board of Directors and its committees as follows:

| <b>Non-employee Director Fees</b>                                   | <b>Amount</b>   |
|---|---|
| Quarterly director retainer <sup>6</sup>                            | \$17,500 in cash  |
| Additional quarterly retainer paid to the Lead Director             | \$7,500 in cash   |
| Additional quarterly retainer paid to committee chairs <sup>1</sup> | \$3,125 in cash   |
| Compliance Committee meeting attendance fee                         | \$1,000 in cash per Compliance Committee meeting attended |
| Annual equity retainer <sup>7,8</sup>                               | Fulton restricted stock units equivalent to \$60,000      |

<sup>1</sup> An additional quarterly retainer is not paid to the chair of the Executive Committee.

<sup>2</sup> During 2018, Committee meeting attendance fees were not paid to a non-employee director for attending standing committee (Audit, Human Resources, Nominating and Corporate Governance and Risk Committees) meetings held in conjunction with a regularly scheduled meeting of the Board of Directors that the director attended.

<sup>3</sup> Stock awards granted on June 1, 2018 to non-employee directors elected at the Annual Meeting of shareholders, and granted on November 1, 2018 to non-employee directors serving on the date of grant. Each of the stock awards granted to the non-employee directors during 2018 was equivalent to \$25,000 of Fulton’s common stock, rounded up to the next whole share.

<sup>4</sup> 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.

<sup>5</sup> 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.

<sup>6</sup> Effective January 1, 2019, Fulton eliminated meeting attendance fees for the Board of Directors and standing committees, and in lieu of meeting attendance fees, the director cash retainer was increased.

<sup>7</sup> Non-employee directors who are elected by Fulton shareholders at the Annual Meeting will receive a 2019 annual equity retainer in restricted stock units (“DSU Awards”). The DSU Awards are for Board of Directors service from May 2019 to May 2020. The HR Committee intends to grant the DSU Awards prior to the Annual Meeting with a June 1, 2019 grant date. The number of restricted stock units comprising the DSUs Awards will be based on the closing price of Fulton’s common stock on the grant date, or the prior trading day, if the grant date is not a trading day, rounded up to the next whole share. Until such time as the DSU Awards are fully vested, settled and paid in Fulton common stock, the equity award will accrue “Dividend Equivalents” that are reinvested in similar restricted stock units, with the same vesting and settlement terms applicable to the original DSU Awards. The DSU Awards fully vest after one year of service, or, if earlier, the date of the next annual meeting of shareholders. Directors who retire or leave the Board of Directors for other reasons prior to completing their full term may forfeit a prorated portion of their DSU Awards for not completing a full one-year term of service. The prorated portion of a DSU Award forfeited will be based on the remaining portion of the one-year term not served by the director, unless the HR Committee waives the proration due to a change in control, death, disability or other reason as determined by the HR Committee. The DSU Awards will settle in Fulton common stock and will vest and be paid on the first anniversary of the date of grant, unless a director irrevocably elected in writing to defer settlement and payment until after the end of his or her board service as described below.

<sup>8</sup> A director may elect to defer settlement and payment of his or her DSU Award, but must make that election by December 31 of the year prior to the grant date. A non-employee director may elect to receive payment of a vested DSU Award either as a lump sum, or paid in equal annual installments over three years, commencing on January 15 of the year following the director’s departure from the Board of Directors. A deferred DSU Award will continue to accrue dividends as dividend equivalents, which will be paid in Fulton common stock once the DSU Award is settled and paid.

The following table summarizes all of the compensation paid to each non-employee Fulton director who served as a director of Fulton during 2018:

**DIRECTOR COMPENSATION TABLE**

| Name <sup>1</sup>                | Fees Earned or Paid in Cash (\$) | Stock Awards <sup>2</sup> (\$) | Option Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) | All Other Compensation <sup>3,4</sup> (\$) | Total (\$) |
|----------------------------------|----------------------------------|--------------------------------|--------------------|---|--|--|------------|
| Lisa Crutchfield                 | 69,500                           | 50,022                         | 0                  | 0   | 0  | 0  | 119,522    |
| Denise L. Devine                 | 77,500                           | 50,022                         | 0                  | 0   | 0  | 0  | 127,522    |
| Patrick J. Freer                 | 53,000                           | 50,022                         | 0                  | 0   | 0  | 0  | 103,022    |
| George W. Hodges                 | 78,500                           | 50,022                         | 0                  | 0   | 0  | 0  | 128,522    |
| Albert Morison III <sup>5</sup>  | 77,000                           | 50,022                         | 0                  | 0   | 0  | 0  | 127,022    |
| James R. Moxley III              | 99,000                           | 50,022                         | 0                  | 0   | 0  | 0  | 149,022    |
| R. Scott Smith, Jr. <sup>5</sup> | 57,000                           | 50,022                         | 0                  | 0   | 0  | 12,822 <sup>6</sup>                        | 119,844    |
| Scott A. Snyder                  | 53,000                           | 50,022                         | 0                  | 0   | 0  | 0  | 103,022    |
| Ronald H. Spair                  | 78,500                           | 50,022                         | 0                  | 0   | 0  | 0  | 128,522    |
| Mark F. Strauss                  | 66,000                           | 50,022                         | 0                  | 0   | 0  | 0  | 116,022    |
| Ernest J. Waters                 | 90,500                           | 50,022                         | 0                  | 0   | 0  | 0  | 140,522    |

<sup>1</sup> Directors listed represent all the non-employee directors of Fulton serving during 2018.

<sup>2</sup> Fulton's non-employee directors were granted Fulton common stock (rounded to next whole share) as part of their 2018 compensation pursuant to the 2011 Director Equity Plan. The amounts in this column consist of a \$25,012.50 stock award granted on June 1, 2018 consisting of 1,450 shares having a grant date fair value of \$17.50 per share (the closing price of Fulton common stock on June 1, 2018), and a second \$25,009.60 stock award granted on November 1, 2018 consisting of 1,540 shares having a grant date fair value of \$16.24 per share (the closing price of Fulton common stock on November 1, 2018). 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 2018.

<sup>3</sup> 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.

<sup>4</sup> Some of Fulton's directors also serve on boards of directors 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 2018, Director Hodges received \$28,250 in fees from Fulton Bank, N.A., Director Moxley received \$17,150 in fees from The Columbia Bank, Director Strauss received \$17,800 in fees from Fulton Bank of New Jersey, and Director Waters received \$29,250 in fees from Fulton Bank, N.A.

<sup>5</sup> Mr. Morrison and Mr. Smith will retire from Fulton's Board of Directors at the Annual Meeting.

<sup>6</sup> This amount includes club membership fees, plus office use, parking and other perquisites received by Director Smith during 2018.

**RESOLUTION TO APPROVE THE AMENDED AND RESTATED  
DIRECTORS' EQUITY PARTICIPATION PLAN – PROPOSAL TWO**

**Overview and Background of the Amended and Restated Directors' Equity Participation Plan**

Fulton's shareholders are being asked to approve the Amended and Restated Directors' Equity Participation Plan, which is an amendment and restatement of the 2011 Director Equity Plan that Fulton shareholders previously approved at the 2011 Annual Meeting. On March 19, 2019, upon the recommendation of the HR Committee and its independent compensation consultant, the Board of Directors approved, subject to shareholder approval at the Annual Meeting, the Amended and Restated Directors' Equity Participation Plan.

The 2011 Director Equity Plan has been used to make equity-based awards to non-employee directors of Fulton, and the Amended and Restated Directors' Equity Participation Plan will be used in a similar fashion. The Amended and Restated Directors' Equity Participation Plan will enable Fulton to continue to grant a variety of equity-based awards to eligible participants. The Amended and Restated Directors' Equity Participation Plan will also extend the term of the 2011 Director Equity Plan for an additional 10 years, until May 2029, and make certain updating changes to the 2011 Director Equity Plan. In the absence of approval by the shareholders, the current 2011 Director Equity Plan will expire in 2021. The Amended and Restated Directors' Equity Participation Plan does not increase the number of shares of Fulton common stock that may be issued under the 2011 Director Equity Plan.

**Key Terms and Purpose of the Amended and Restated Directors' Equity Participation Plan**

The Amended and Restated Directors' Equity Participation Plan is set forth in Appendix A to this proxy statement. The following description of the Amended and Restated Directors' Equity Participation Plan is a summary of the plan. You should read the Amended and Restated Directors' Equity Participation Plan, the terms of which are incorporated by reference into this proxy statement. The purpose of the Amended and Restated Directors' Equity Participation Plan is to advance the long-term success of Fulton and its subsidiaries and to increase shareholder value by:

- providing stock-based compensation to the non-employee members of the Board of Directors, the board of directors of any subsidiary of Fulton, or any advisory board of Fulton or its subsidiaries;
- encouraging director share ownership;
- aligning further the interests of non-employee directors with those of Fulton's shareholders;
- ensuring that Fulton's non-employee director compensation practices are competitive in the industry; and
- assisting in the attraction and retention of non-employee directors, including directors who further Fulton's goal of achieving diversity on the Board of Directors through differences of view point, professional experience, education and skills, as well as race, gender and national origin.

**Type of Awards**

The Amended and Restated Directors' Equity Participation Plan provides for several types of equity awards. Fulton may grant restricted stock, restricted stock units, stock options and stock awards, under the Amended and Restated Directors' Equity Participation Plan.

- Restricted Stock Awards – The HR Committee may, from time to time, grant restricted stock awards to participants, subject to such terms and conditions as the HR Committee shall determine, provided that each such award must be subject to a restriction period prior to vesting. In the event of a termination of board service due to death or disability, all the restrictions' shall lapse and all outstanding restricted stock awards shall vest. In the event of retirement, if a participant has completed at least one year, or such longer period established by the HR Committee, of board service since first joining Fulton, the restricted stock shall vest, on a prorated basis, from the date of grant to the effective date of retirement. Upon a change in control, all restrictions shall lapse and all outstanding restricted stock awards shall vest. Upon termination of service for any other reason, the participant shall forfeit all shares subject to restriction.
- Restricted Stock Units – The HR Committee has authority to grant restricted stock units to participants. Restricted stock units are similar to restricted stock, but a restricted stock unit is the right to receive a share of common stock at some point in the future; the common stock is not issued and outstanding at

the time of award. Restricted stock units are subject to forfeiture if the time-based forfeiture restrictions imposed by the HR Committee are not met. During the restriction period, the participant is not the owner of the shares of common stock, but is entitled to receive “dividend equivalents,” in the amount of any dividend on Fulton’s common stock that is declared during the restriction period. Such dividend equivalents are in the form of additional restricted stock units, subject to the same restriction period and are credited to the participant’s account and subject to the same terms as the original restricted stock unit award. Upon the lapse of any forfeiture restrictions, the participant will be issued shares of Fulton’s common stock. The time-based forfeiture restrictions lapse upon the death or disability, retirement or change in control in the same manner as restricted stock awards described above.

- **Stock Option Awards** – The HR Committee may, from time to time, grant stock options to participants. Each option will entitle the participant to purchase a specified number of shares of Fulton’s common stock at a price at least equal to the fair market value of Fulton’s common stock on the day the option is granted. The repricing of options is prohibited under the terms of the Amended and Restated Directors’ Equity Participation Plan, unless approved by Fulton’s shareholders. Except as otherwise provided by the HR Committee: (1) upon termination of service due to death (while in active service), disability or retirement, the option must be exercised by the participant (or his or her estate) within one year following the participant’s termination of board service and prior to its expiration date, and may be exercised as to all or any portion of the option, regardless of whether or not fully exercisable under the terms of the grant; and (2) as to any other termination event, the option must be exercised by the participant within six months following the participant’s termination of board service and prior to its expiration date, and all options not then exercisable shall be canceled. The HR Committee may, in its discretion, extend the post-termination exercise period, but not beyond the original option term. All stock options granted will expire not later than ten years from the date the stock option was granted. Upon a change in control, as defined in the Amended and Restated Directors’ Equity Participation Plan, all options immediately become exercisable.
- **Stock Awards** – The HR Committee may, from time to time, grant each non-employee director who participates in the Amended and Restated Directors’ Equity Participation Plan stock awards in the form of unrestricted shares of Fulton’s common stock. The HR Committee may also permit participants to receive shares of common stock in lieu of cash for some or all of the director fees to be paid to them, subject to the annual individual award limitations described below.

#### **Term, Termination and Amendment of the Amended and Restated Directors’ Equity Participation Plan**

If shareholders approve this proposal at the Annual Meeting, the Amended and Restated Directors’ Equity Participation Plan shall become effective on May 21, 2019. Upon its approval by Fulton’s shareholders, the term of the Amended and Restated Directors’ Equity Participation Plan will be extended for ten years, until May 21, 2029. The Board of Directors or the HR Committee may modify, amend, or terminate the Amended and Restated Directors’ Equity Participation Plan at any time except that, to the extent then required by applicable law, rule, regulation, or applicable listing requirements for the Fulton’s common stock, approval of the holders of a majority of shares of common stock represented in person or by proxy at a meeting of the shareholders will be required to: increase the maximum number of shares of Fulton common stock available for distribution under the Amended and Restated Directors’ Equity Participation Plan (other than increases due to adjustments in accordance with the Amended and Restated Directors’ Equity Participation Plan provisions); or “materially amend” the Amended and Restated Directors’ Equity Participation Plan under applicable listing requirements for Fulton’s common stock. No modification, amendment, or termination of the Amended and Restated Directors’ Equity Participation Plan shall adversely affect the rights of a participant under a grant previously made to such participant without the consent of such participant.



## **Eligibility**

All members of the Board of Directors, all members of Fulton’s subsidiary boards of directors and all members of any advisory board established by Fulton, or any of its subsidiaries, who are not, in each case, an employee of Fulton or of its subsidiaries, will be eligible to participate pursuant to the terms of the Amended and Restated Directors’ Equity Participation Plan.

As of the date of this proxy statement, there were approximately one hundred (100) members of the boards of directors and advisory boards of Fulton’s subsidiaries, in addition to the twelve (12) non-employee director nominees, who will be non-employee directors of Fulton eligible to participate in the Amended and Restated Directors’ Equity Participation Plan.

## **New Plan Benefits**

Because benefits under the Amended and Restated Directors’ Equity Participation Plan will depend on HR Committee actions and the fair market value of Fulton’s common stock at various future dates, the dollar value and number of shares underlying awards that may be granted under the Amended and Restated Directors’ Equity Participation Plan are not determinable. See the Director Compensation Table on Page 28 for information regarding the awards made to non-employee members of the Board of Directors under the 2011 Director Equity Plan during 2018. No awards were made to the members of the boards of directors and advisory boards of Fulton’s subsidiaries under the 2011 Director Equity Plan during 2018.

For 2019, the HR Committee has approved a compensation structure for the non-employee members of the Board of Directors that would include an anticipated award of restricted stock units under the Amended and Restated Directors’ Equity Participation Plan to the non-employee members of the Board of Directors with a grant date fair market value of \$60,000, rounded up to the next whole share. For 2019, the twelve (12) non-employee director nominees, as a group, would receive awards with an aggregate estimated dollar value of \$720,000, and representing 41,628 underlying shares of Fulton common stock, based on the closing price of Fulton’s common stock on March 1, 2019, which was \$17.30.

## **Current Equity Granting Practices**

At the present time, only non-employee members of the Board of Directors receive any of their fees for board service in shares of Fulton common stock issued under the 2011 Director Equity Plan. During 2018, each non-employee member of the Board of Directors received a total of approximately \$50,000 in common stock awards as part of their compensation for Board of Directors service. For 2019, Fulton has revised its non-employee director compensation program and expects to award the non-employee directors who are elected by Fulton shareholders at the Annual Meeting a 2019 annual equity retainer in restricted stock units (“DSU Award”) under the Amended and Restated Directors’ Equity Participation Plan in the amount of \$60,000. This DSU Award would be for Board of Director service from May 2019 to May 2020.

In future years, the HR Committee intends to approve DSU Awards annually in conjunction with Fulton’s Annual Meeting with a June 1 grant date. The number of restricted stock units comprising the DSUs Awards will be based on the closing price of Fulton’s common stock on the grant date, or the prior trading day, if the grant date is not a trading day, rounded up to the next whole share. Until such time as the DSU Awards are fully vested, settled and paid in Fulton common stock, the equity awards will accrue “Dividend Equivalents” that are reinvested in similar restricted stock units, with the same vesting and settlement terms applicable to the original DSU Awards. The DSU Awards fully vest after one year of service, or, if earlier, the date of the next annual meeting of shareholders. Directors who retire or leave the Board of Directors for other reasons prior to completing their full term may forfeit a prorated portion of their DSU Awards for not completing their one-year term of service. The prorated portion of a DSU Award forfeited will be based on the remainder of the one-year term not served by the director, unless the reason for departure is death, disability, retirement or a change in control as described above. The DSU Awards will settle in Fulton common stock and will vest and be paid on the first anniversary of the date of grant, unless a director irrevocably elected in writing to defer settlement and payment until after the end of his or her board service as described below.

A participant may elect to defer, his or her DSU Award, but must make that election by December 31 of the year prior to the grant date. A non-employee director may elect to receive payment of a vested DSU Award either as a lump sum, or paid in equal annual installments over three years, commencing on January 15 of the year following the director's departure from the Board of Directors. A deferred DSU Award will continue to accrue dividends as dividend equivalents, which will be paid in Fulton common stock once the DSU Award is settled and paid.

### **Annual Individual Award Limitations**

The maximum number of shares of Fulton's common stock, in the aggregate, under all types of awards granted to any one eligible participant in any one calendar year under the Amended and Restated Directors' Equity Participation Plan may not exceed the greater of: (a) 20,000 shares; or (b) a number of shares with a fair market value on the date of the grant of \$200,000.00. This represents an increase from the limits set forth in the 2011 Director Equity Plan. The increase reflects the changes made to non-employee director compensation program, as described in this proposal, and is intended to provide sufficient flexibility to achieve the purposes of the Amended and Restated Directors' Equity Participation Plan during the ten-year period during which awards may be granted.

### **Number of Awards that May be Made**

As of March 1, 2019, there were no shares of Fulton's common stock underlying outstanding stock option, restricted stock and restricted stock unit awards under the Amended and Restated Directors' Equity Participation Plan. As of that date, there were 311,669 shares available for future awards under the Amended and Restated Directors' Equity Participation Plan. Fulton believes that the number of shares of common stock remaining available for future awards under the Amended and Restated Directors' Equity Participation Plan is sufficient to adequately provide for participation of the non-employee directors who are eligible to receive such grants over the amended term of the plan (i.e., ten years) and, therefore, is not seeking to increase the number of shares available for future awards under the Amended and Restated Directors' Equity Participation Plan.

When originally approved in 2011, shareholders authorized a maximum of 500,000 shares to be issued under the 2011 Director Equity Plan; less than 40% of the original shares authorized have been issued under the 2011 Director Equity Plan. On March 1, 2019, the closing price of Fulton's common stock was \$17.30 per share.

### **Rights with Respect to Shares**

The recipient of a stock award immediately has all rights of ownership with respect to such shares, including the right to vote such shares and to receive any dividends paid thereon. The recipient of a stock option has all rights of ownership with respect to shares upon the exercise of vested stock options and the receipt of shares issued. The recipient of a restricted stock award or a restricted stock unit award does not have all the same rights as a holder of common stock. For example, the recipient of a restricted stock award or a restricted stock unit award does not have the right to receive dividends on those shares or units; instead, dividends equivalents are awarded.

### **Clawback of Awards**

Any awards made under the Amended and Restated Directors' Equity Participation Plan may be subject to recovery by Fulton (typically known as a "clawback" provision) as required under any law, regulation or stock exchange listing requirement, or any policy of Fulton that currently exists or which may be implemented in the future.

### **Federal Income Tax Consequences**

The following is a brief description of the material United States federal income tax consequences associated with awards under the Amended and Restated Directors' Equity Participation Plan. It is based on existing United States laws and regulations, and there can be no assurance that those laws and regulations will not change in the future. Tax consequences in other countries may vary.

The fair market value of stock awards of shares of Fulton common stock granted under the Amended and Restated Directors' Equity Participation Plan is taxable to the non-employee director in the year awarded. Fulton would be entitled to deduct a corresponding amount as a business expense in the year the non-employee director recognizes this income.

The recipient of a stock option granted under the Amended and Restated Directors' Equity Participation Plan would not pay any tax at the time of grant. When an option is exercised, any excess of the fair market value of the affected shares over the total option price of those shares would be treated for federal tax purposes as ordinary income. Any profit or loss realized on the sale or exchange of any share actually received would be treated as a capital gain or loss. If the fair market value on the date of exercise of the shares with respect to which the option was exercised exceeds the exercise price, Fulton would be entitled to deduct that amount.

With respect to restricted stock awards granted under the Amended and Restated Directors' Equity Participation Plan, the recipient would generally recognize ordinary income equal to the excess of the fair market value of the shares received (determined as of the date on which the shares become transferable or not subject to a substantial risk of forfeiture, whichever occurs first) over the amount, if any, paid for the shares. Fulton would be entitled to a tax deduction in the same amount. A recipient may elect to accelerate the recognition of ordinary income with respect to restricted stock awards to when the shares are granted. If an election is made to accelerate the recognition of ordinary income, the amount of ordinary income would be determined as of the accelerated tax date rather than as of the date when the applicable restriction expires. In such a case, Fulton's tax deduction would be determined at the same time. Any subsequent gain or loss resulting from the sale or other disposition of such shares would be treated as a capital gain or loss.

A recipient normally would not realize taxable income upon the award of restricted stock units. A recipient would be subject to tax on the earlier of the year in which the recipient receives the underlying shares of common stock, or the year in which the award is no longer subject to a substantial risk of forfeiture. In that year, the recipient would recognize income equal to the fair market value of the shares of Fulton's common stock received, and Fulton would be entitled to a deduction in the same amount.

### **Vote Required for Approval**

The affirmative vote of a majority of the shares present at the Annual Meeting, in person or by proxy, and entitled to vote is required to approve the Amended and Restated Directors' Equity Participation Plan.

### **Recommendation of the Board of Directors**

**The Board of Directors recommends that shareholders vote FOR the Amended and Restated Directors' Equity Participation Plan.**

## INFORMATION CONCERNING EXECUTIVE 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 2018 listed in the table below. There were a number of changes among our Named Executive Officers based on role changes within Fulton, including Curtis J. Myers becoming President and Chief Operating Officer on January 1, 2018, the addition of Mark R. McCollom, who became Fulton’s Chief Financial Officer on March 2, 2018, replacing Philmer H. Rohrbaugh, who served as Fulton’s Chief Financial Officer through March 1, 2018. Mr. Rohrbaugh held a number of executive positions with Fulton, including Chief Risk Officer, Chief Operating Officer and Chief Financial Officer, and retired as a member of Fulton’s senior management in 2018. In addition, Angela M. Snyder became a Named Executive Officer with her new role as Senior Executive Vice President and Head of Consumer Banking, and Meg R. Mueller became Senior Executive Vice President and Head of Commercial Business. These new positions for Ms. Snyder and Ms. Mueller were both effective as of January 1, 2018.

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

| 2018 Named Executive Officers | Fulton Officer Title   |
|-------------------------------|--|
| <b>E. Philip Wenger</b>       | Chairman and Chief Executive Officer   |
| <b>Mark R. McCollom</b>       | Senior Executive Vice President and Chief Financial Officer, effective March 2, 2018 |
| <b>Philmer H. Rohrbaugh</b>   | Senior Executive Vice President and Chief Financial Officer, through March 1, 2018   |
| <b>Curtis J. Myers</b>        | President and Chief Operating Officer  |
| <b>Angela M. Snyder</b>       | Senior Executive Vice President and Head of Consumer Banking                         |
| <b>Meg R. Mueller</b>         | Senior Executive Vice President and Head of Commercial Business                      |

### Table of Contents for the Compensation Discussion and Analysis

|     |  |    |
|-----|--|----|
| 1.  | Executive Summary . . . . .                                  | 35 |
| 2.  | Shareholder Say-on-Pay Proposal Historical Results . . . . . | 37 |
| 3.  | Pay for Performance . . . . .                                | 37 |
| 4.  | Compensation Philosophy . . . . .                            | 39 |
| 5.  | HR Committee Membership and Role . . . . .                   | 40 |
| 6.  | Role of Management . . . . .                                 | 40 |
| 7.  | Use of Consultants . . . . .                                 | 41 |
| 8.  | Use of a Peer Group . . . . .                                | 41 |
| 9.  | Elements of Executive Compensation . . . . .                 | 42 |
| 10. | Employment Agreements . . . . .                              | 49 |
| 11. | Compensation Plan Risk Review . . . . .                      | 49 |
| 12. | Other Compensation Elements . . . . .                        | 50 |

## 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, 2018, which is being made available to shareholders together with this Proxy Statement, contains an overview of Fulton's 2018 performance. Following is a brief summary of some of the financial highlights identified therein for the year ended December 31, 2018:

- Net Income Per Share Growth: Diluted net income per share increased \$0.20, or 20.4%, to \$1.18 per diluted share for 2018, compared to \$0.98 in 2017.
- Net Interest Income and Net Interest Margin: Net interest income increased \$55.1 million, or 9.6%, compared to 2017, while the fully taxable-equivalent net interest margin increased 12 basis points to 3.40%.
- Loan Growth: Average loans increased \$578.7 million, or 3.8%, compared to 2017.
- Deposit Growth: Average deposits increased \$351.4 million, or 2.3%, compared to 2017.
- Non-Interest Income: Non-interest income, excluding investment securities gains, decreased \$3.4 million, or 1.7%, compared to 2017.
- Non-Interest Expense: Non-interest expense increased \$20.5 million, or 3.9%, compared to 2017.

The HR Committee took a number of actions relating to compensation for the Executives during 2018, as summarized in the table below:

| Element          | HR Committee Actions  |                                    |                                    |                                    |            |       |       |                  |                            |       |
|------------------|---|------------------------------------|------------------------------------|------------------------------------|------------|-------|-------|------------------|----------------------------|-------|
| Salaries         | <ul style="list-style-type: none"> <li>Mr. Wenger received a 2.5% annual base salary increase effective April 1, 2018.</li> <li>Mr. Myers, Ms. Snyder and Ms. Mueller received base salary increases effective January 1, 2018 with their new positions.</li> </ul>   |                                    |                                    |                                    |            |       |       |                  |                            |       |
| VCP Awards       | <ul style="list-style-type: none"> <li>Set target VCP Award amounts as a percentage of salary for Mr. Wenger at 85%, for Mr. McCollom and Myers at 70%, and at 50 % for each of the other Executives.</li> <li>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.</li> <li>Conditioned the payment of VCP Awards for 2018 performance on Fulton having a minimum return on average equity (“ROE”) of 7.68% and positive net income for 2018.</li> <li>Exercised negative discretion and applied a 15% downward corporate modifier to all Executive VCP Awards.</li> <li>Evaluated Fulton’s and each Executive’s performance relative to the performance criteria and determined that the Executives should receive VCP Awards for 2018 performance, as a percentage of salary, and a percentage of target, as follows:</li> </ul> <table border="1" style="margin-left: 20px;"> <thead> <tr> <th style="background-color: #d9e1f2;">Executive</th> <th style="background-color: #d9e1f2;">Actual VCP Awards as a % of salary</th> <th style="background-color: #d9e1f2;">Actual VCP Awards as a % of target</th> </tr> </thead> <tbody> <tr> <td>Mr. Wenger</td> <td style="text-align: center;">55.6%</td> <td style="text-align: center;">65.5%</td> </tr> <tr> <td>Other Executives</td> <td style="text-align: center;">Ranged from 32.7% to 45.8%</td> <td style="text-align: center;">65.5%</td> </tr> </tbody> </table>   | Executive                          | Actual VCP Awards as a % of salary | Actual VCP Awards as a % of target | Mr. Wenger | 55.6% | 65.5% | Other Executives | Ranged from 32.7% to 45.8% | 65.5% |
| Executive        | Actual VCP Awards as a % of salary  | Actual VCP Awards as a % of target |                                    |                                    |            |       |       |                  |                            |       |
| Mr. Wenger       | 55.6%   | 65.5%                              |                                    |                                    |            |       |       |                  |                            |       |
| Other Executives | Ranged from 32.7% to 45.8%  | 65.5%                              |                                    |                                    |            |       |       |                  |                            |       |
| LTI Awards       | <ul style="list-style-type: none"> <li>Approved LTI Award grants in 2018, in the form of performance-based restricted stock units (“Performance Shares”).</li> <li>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, except Mr. Rohrbaugh, as of January 1, 2018, 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.</li> <li>The actual number of shares of Fulton common stock, if any, that the Executives may receive upon vesting on May 1, 2021 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.</li> <li>The Performance Shares were allocated by the HR Committee among three components, each having different vesting terms, as summarized below:</li> </ul> <p><b>Component A</b>, representing 37.5% of the target dollar amount for the Executives:</p> <ul style="list-style-type: none"> <li>Component A Performance Shares will vest only if Fulton has net income during calendar year 2020 (the calendar year before potential vesting of the Performance Shares on May 1, 2021) at least equal to the dividends declared on Fulton common stock during the four calendar quarters immediately preceding the grant date (the “Profit Trigger”).</li> <li>The number of shares that may be received upon vesting of Component A Performance Shares is determined based on Fulton’s 2018 return on average assets (“ROA”) measured against an absolute ROA goal equivalent to 100% of Fulton’s budgeted ROA for 2018.</li> <li>Fulton’s actual ROA for 2018 of 1.033% reduced the number of shares of stock that may be received upon vesting of the Component A Performance Shares to 81.44% of the original target number of Component A Performance Shares. The vesting of these Component A Performance Shares on May 1, 2021 remains subject to the Profit Trigger requirement.</li> </ul> <p><b>Component B</b>, representing 37.5% of the target dollar amount for the Executives:</p> <ul style="list-style-type: none"> <li>The number of shares that may be received upon vesting of Component B Performance Shares on May 1, 2021 is determined based on Fulton’s total shareholder return (“TSR”) during the period from May 1, 2018 through March 31, 2021 measured relative to Fulton’s 2018 peer group.</li> </ul> <p><b>Component C</b>, representing 25% of the target dollar amount for the Executives:</p> <ul style="list-style-type: none"> <li>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 potential vesting of Component C Performance Shares on May 1, 2021 is subject to the Profit Trigger requirement.</li> </ul> |                                    |                                    |                                    |            |       |       |                  |                            |       |

## 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 2019 annual non-binding Say-on-Pay Proposal is set forth on Page 64.

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 2019 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 approximately 95% 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<br>Fulton’s Say-on-Pay Proposal |        |        |        |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|--------|--------|--------|
| Year   | 2018   | 2017   | 2016   | 2015   | 2014   | 2013   | 2012   | 2011   |
| % Voted FOR  | 97.73% | 97.63% | 96.56% | 96.15% | 96.49% | 93.87% | 92.63% | 90.98% |

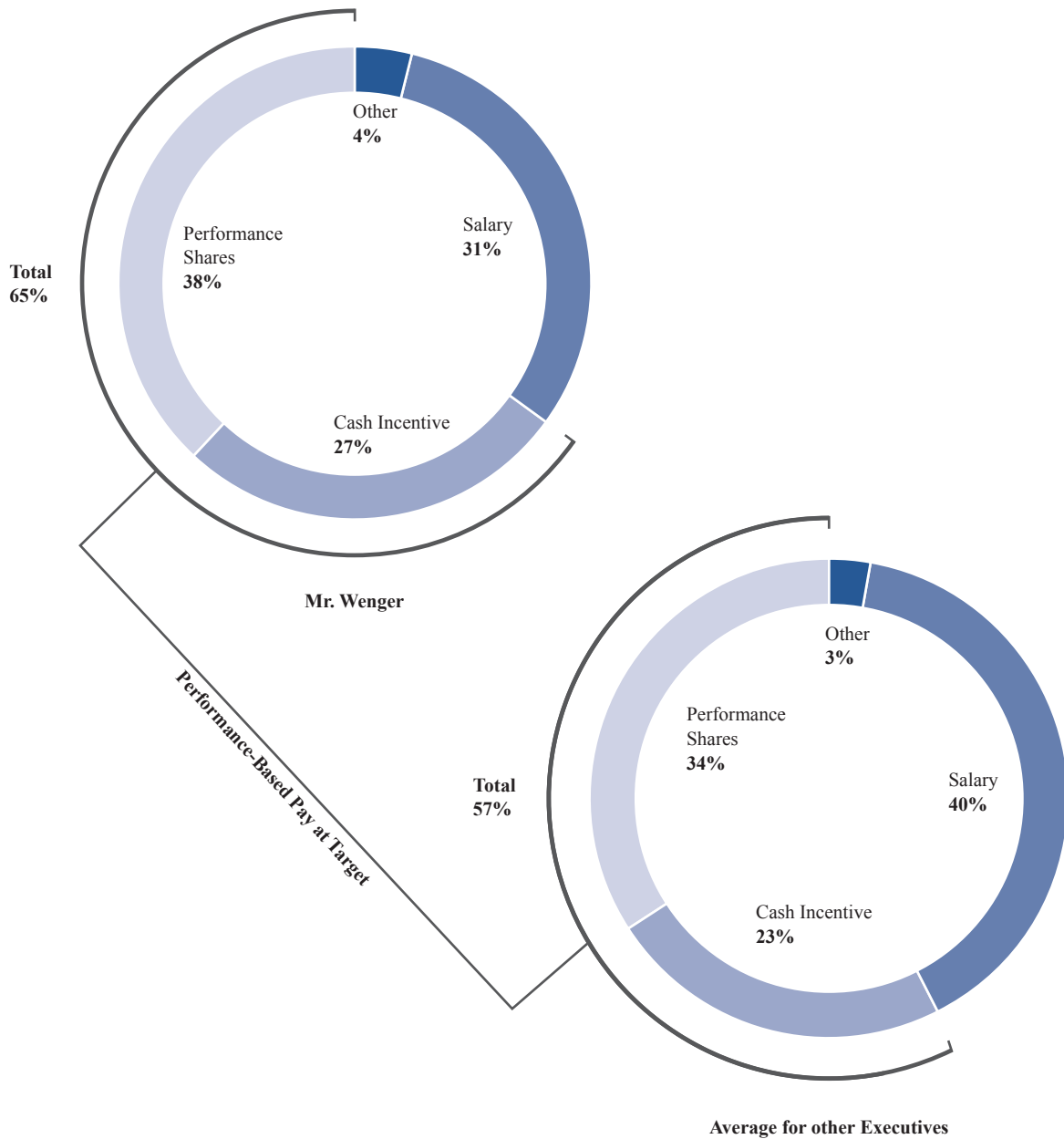
The HR Committee, which is composed exclusively of independent directors, believes that the prior votes of Fulton’s shareholders confirms the philosophy and objective of linking Fulton’s executive compensation to its operating objectives and the enhancement of shareholder value. Fulton views this continued 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 2018. The HR Committee will continue to consider the outcome of 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, or when adjusted by the HR Committee in their discretion, if applicable, for corporate performance results using a corporate modifier, then the amount of the VCP Award may be adjusted or the Executive may not receive the VCP Award. The 2018 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, excluding Mr. Rohrbaugh, who retired in early 2018, with the 2018 VCP Awards at target, the 2018 Performance Shares at target, plus base salary and all other compensation those Executives received in 2018. For 2018, Mr. Wenger’s “performance pay” was 65% of total compensation, and the average “performance pay” for the other Executives was 57% of total compensation.

**2018 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:

|   |  |
|---|--|
| <b>Align interests of the Executives with shareholder interests</b> | 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.   |
| <b>Link “pay to performance”</b>                                    | 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.   |
| <b>Attract, motivate and retain talent</b>                          | 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:

|                                     |  |
|-------------------------------------|--|
| <b>Base Salary</b>                  | Fulton generally sets Executive base salaries near the market median at comparable peer companies and to reflect individual job responsibilities, experience and tenure.   |
| <b>Annual Cash Incentive Awards</b> | 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.   |
| <b>Equity Awards</b>                | 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. |
| <b>Benefits</b>                     | 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.  |
| <b>Perquisites</b>                  | 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 24 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](http://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 2018, 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 FW Cook as its independent compensation consultant for 2018. FW Cook performed a variety of assignments during 2018 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, a comprehensive review of Fulton's director compensation programs and providing general compensation advice regarding Fulton's Executives. As part of the 2018 engagement, FW Cook 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, FW Cook 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. FW Cook reported to the HR Committee that it and its affiliates did not provide additional services to Fulton or its affiliates in 2018.

At its February 2018 meeting, the HR Committee considered the independence of FW Cook for the 2018 engagement in light of the SEC rules and NASDAQ listing standards related to compensation committee consultants. The HR Committee requested and received a report from FW Cook addressing its independence as a compensation consultant to the HR Committee, including the following factors: (1) other services provided to Fulton by FW Cook; (2) fees paid by Fulton as a percentage of FW Cook's total revenue; (3) policies or procedures maintained by FW Cook 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; (6) any business or personal relationships between Fulton's executive officers, FW Cook and the individual consultants performing work for the HR Committee; and (7) other factors deemed relevant to FW Cook's independence from management. The HR Committee discussed these considerations and concluded that the work performed by FW Cook and its consultants involved in the engagements did not raise any conflict of interest, and further concluded that FW Cook continues to satisfy the applicable rules and standards related to the independence of compensation committee consultants.

## **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, has regularly reviewed 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 FW Cook, reviewed the composition of Fulton's peer group. This review was based on a review of the peer group in late 2017, and the HR Committee, consistent with the recommendation of FW Cook, approved the peer group appearing in the table below as the peer group for 2018 (the "2018 Peer Group"). The aggregate analysis of the executive compensation practices of the companies in the 2018 Peer Group was used by the HR Committee in the review of overall compensation and in setting 2018 base salaries for the Executives. During 2018, the 2018 Peer Group was also used as the peer group for the Performance Shares, as discussed below.

Similar to the selection of prior peer groups, the 2018 Peer Group was evaluated and selected based on a range of factors, including asset size, revenue composition, number of employees, market capitalization, geographic focus, business model, and ownership profile. FW Cook recommended the removal of FirstMerit Corp. and PrivateBancorp, Inc. because those peers were recently acquired, and the independent compensation consultant also suggested that Western Alliance Bancorp be removed. FW Cook proposed five new peers for 2018 to create a peer group with an appropriate number and composition of peers. The new peers for 2018 were Investors Bancorp, Inc.; First Midwest Bancorp, Inc.; United Community Banks, Inc.; Provident Financial Services, Inc.; and Union Bankshares Corp. Based on its analysis, FW Cook advised the HR Committee that Fulton was at the 44th percentile with respect to market capitalization and at the 41st percentile with respect to total assets, when compared to the 2018 Peer Group.

The following table provides the twenty-two (22) members of the 2018 Peer Group, their stock trading symbols and the location of their principal executive offices:

| <b>2018 Peer Group</b>             | <b>Ticker</b> | <b>City State</b> |
|------------------------------------|---------------|-------------------|
| BancorpSouth Bank                  | BXS           | Tupelo MS         |
| Commerce Bancshares, Inc.          | CBSH          | Kansas City MO    |
| First Midwest Bancorp, Inc.        | FMBI *        | Itasca IL         |
| F.N.B. Corp.                       | FNB           | Pittsburgh PA     |
| Hancock Holding Co.                | HBHC          | Gulfport MS       |
| IBERIABANK Corp.                   | IBKC          | Lafayette LA      |
| Investors Bancorp, Inc.            | ISBC *        | Short Hills NJ    |
| MB Financial, Inc.                 | MBFI          | Chicago IL        |
| Northwest Bancshares, Inc.         | NWBI          | Warren PA         |
| Old National Bancorp               | ONB           | Evansville IN     |
| Prosperity Bancshares, Inc.        | PB            | Houston TX        |
| Provident Financial Services, Inc. | PFS *         | Jersey City NJ    |
| TCF Financial Corporation          | TCF           | Wayzata MN        |
| Trustmark Corp.                    | TRMK          | Jackson MS        |
| UMB Financial Corp.                | UMBF          | Kansas City MO    |
| Umpqua Holdings Corp.              | UMPQ          | Portland OR       |
| Union Bankshares Corp.             | UBSH *        | Richmond VA       |
| United Bankshares, Inc.            | UBSI          | Charleston WV     |
| United Community Banks, Inc.       | UCBI *        | Blairsville GA    |
| Valley National Bancorp            | VLY           | Wayne NJ          |
| Webster Financial Corp.            | WBS           | Waterbury CT      |
| Wintrust Financial Corp.           | WTFC          | Rosemont IL       |

\* New Peer for 2018.

## **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 2018, the HR Committee received a recommendation from its compensation consultant, which considered base salaries paid by members of the 2018 Peer Group to peer officers who held similar roles and who were positioned similarly to the Executives in their respective organizations. Mr. Myers, Ms. Snyder and Ms. Mueller each received base salary increases, effective January 1, 2018, with their new positions. Mr. Wenger received a 2.5% base salary increase effective April 1, 2018. The rationale for each of these increases was based on a review of the Executives' competitive positioning to market using the 2018 Peer Group, analysis of internal pay equity data, the salary increases paid to other Fulton officers, and an internal equity comparison report provided by FW Cook. Fulton's CEO also provided his recommendations to the HR Committee for the other Executives. Mr. McCollom did not receive an increase in 2018 because he had been recently hired, and Mr. Rohrbaugh did not receive an increase because of his anticipated retirement. The HR Committee recommended, and the Board of Directors approved, these base salary adjustments for the Executives effective with the payroll periods, as set forth in the table below.

The 2017 and 2018 base salaries for each of the Executives, along with the effective payroll date and annual percent increases, were:

| Executive                                | 2017 Base Salary | 2018 Base Salary | Increase | Date Effective |
|--|------------------|------------------|----------|----------------|
| <b>E. Philip Wenger</b>                  | \$998,284        | \$1,023,241      | 2.5%     | 4/1/2018       |
| <b>Mark R. McCollom</b> <sup>1</sup>     | \$425,000        | \$ 425,000       | 0%       | -              |
| <b>Philmer H. Rohrbaugh</b> <sup>2</sup> | \$531,306        | \$ 531,306       | 0%       | -              |
| <b>Curtis J. Myers</b>                   | \$424,996        | \$ 510,000       | 20%      | 1/1/2018       |
| <b>Angela M. Snyder</b>                  | \$350,000        | \$ 385,000       | 10%      | 1/1/2018       |
| <b>Meg R. Mueller</b>                    | \$350,000        | \$ 385,000       | 10%      | 1/1/2018       |

<sup>1</sup> Mr. McCollom did not receive an increase in 2018 because he had been recently hired in 2017.

<sup>2</sup> Mr. Rohrbaugh did not receive an increase because of his anticipated retirement in 2018.

*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 2018 ROE threshold equivalent to 80% of Fulton’s budgeted ROE for 2018, 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 2018 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 March 2019 meeting, the HR Committee determined that:

- The 2018 ROE threshold of 7.68% had been achieved, as Fulton had an actual 2018 ROE of 9.24%; and
- The 2018 positive net income trigger had been achieved, as Fulton had 2018 actual positive net income of \$208.4 million.

The VCP Awards were designed to be substantially based on formulaic scorecard results with the HR Committee retaining discretion to adjust any VCP Award, as appropriate.

In early 2018, the HR Committee reviewed and approved scorecards to be used for 2018 performance, as outlined below. FW Cook presented the initial design concept below to help simplify the VCP Awards and to better align pay with performance. The 2018 scorecards recommended by the compensation consultant consisted of six subcategories, which were allocated among Financial Results, Risk Management and Business Objectives categories. FW Cook also recommended maintaining the weight of the Business Objectives at 15%, the weight of the Risk Management category at 35%, permitting a maximum payout for all factors, and continuing to allow for up to a 35% corporate 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 scorecard metrics.

All 2018 Executive scorecards contained the same financial performance metrics and similar risk management performance categories for each Named Executive Officer, including the CEO. Each scorecard also had an “Employee Engagement Index” as a Business Objective that was based on certain 2018 employee survey results. The CEO had a higher payout opportunity than the other Executives who were placed in bands to determine their VCP Award opportunity. The 2018 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 VCP Award Matrix for 2018:

| 2018 VCP Award Matrix   |  |                                  |  |             |
|---|--|----------------------------------|--|-------------|
| Executive   | Payment as a % of Eligible 2018 Base Salary <sup>1</sup> |                                  |  |             |
|   | VCP Threshold<br>(25% of Target)<br>Scorecard Result 2   | VCP Target<br>Scorecard Result 3 | VCP Maximum<br>(150% of Target)<br>Scorecard Result 4.5<br>or better | VCP<br>Band |
| E. Philip Wenger  | 21.25%   | 85%                              | 127.5%   | A           |
| Mark R. McCollom and<br>Curtis J. Myers                         | 17.5%  | 70%                              | 105%   | B           |
| Angela M. Snyder,<br>Meg R. Mueller and<br>Philmer H. Rohrbaugh | 12.5%  | 50%                              | 75%  | C           |

<sup>1</sup> For purposes of determining VCP Awards, eligible salary is the actual base salary paid to each Executive during 2018 as an Executive.

At its March 2019 meeting, the HR Committee reviewed the Executives' overall 2018 performance and scorecard results, and determined that each of the Executives achieved a level of performance in 2018 that qualified for a VCP Award below the target award based on a total scorecard result of 2.77. The HR Committee reviewed the results for each of the scorecard performance subcategories and determined a VCP Award calculation for each of the Executives at 77% of target for 2018. The following is a summary of the 2018 Executive scorecards and results used for the 2018 VCP Awards.

| 2018 Executive Scorecard |  |           |         |             |          |         |           |        |                |
|--------------------------|--|-----------|---------|-------------|----------|---------|-----------|--------|----------------|
| Performance Categories   | Performance Sub-categories                             |           |         |             |          |         |           |        |                |
| Financial Results        | Score Rating   | 0         | 1       | 2 Threshold | 3 Target | 4       | 5 Maximum | Weight | Weighted Score |
|                          | • EPS  | < \$1.123 | \$1.123 | \$1.186     | \$1.248  | \$1.310 | > \$1.373 | 30%    | 0.57           |
|                          | • ROE  | < 8.633%  | 8.633%  | 9.112%      | 9.592%   | 10.072% | > 10.551% | 20%    | 0.45           |
| Risk Management          |  |           |         |             |          |         |           | Weight | Weighted Score |
|                          | • Capital Ratings, Liquidity and Market Risk           |           |         |             |          |         |           | 15%    | 0.60           |
|                          | • Asset Quality: Non-performing Assets to Total Assets |           |         |             |          |         |           | 15%    | 0.49           |
| Business Objectives      | • Corporate Rollup-Regulatory Exams (Compliance)       |           |         |             |          |         |           | 5%     | 0.20           |
|                          |  |           |         |             |          |         |           | Weight | Weighted Score |
|                          | • Employee Engagement Index                            |           |         |             |          |         |           | 15%    | 0.46           |

The HR Committee has authority to exercise its discretion to increase or decrease the calculated VCP Awards, up to 35% on an individual basis, provided that the adjustment does not cause an Executive's VCP Award to exceed 150% of that Executive's VCP Award target. In prior years, the HR Committee has applied this discretion to help maintain proper alignment between scorecard results and incentive awards by taking other factors into account. Fulton adopted the corporate 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 2018, the HR Committee reviewed the calculated scores and resulting VCP Award levels based on the 2018 scorecard results in the context of Fulton's and the Executives' performance during 2018. Based on that review, the HR Committee applied a downward adjustment to the VCP Award levels calculated based upon 2018 scorecard results for the Executives. The HR Committee concluded that, while Fulton's and the Executives' performance during 2018 warranted VCP Award payments to the Executives above the threshold level, Fulton did not accomplish the level of growth and results expected during 2018. In addition, the HR Committee considered Fulton's performance relative to its peers in a number of areas, including 2018 EPS and ROE results, which fell short of both Fulton's targets and the levels achieved by Fulton's peers. As a result, a 15% downward corporate modifier was applied by the HR Committee to each Executive's 2018 VCP Award.

The following is a tabular summary of the 2018 VCP Award target, scorecard result, the actual VCP Award paid for 2018, and the VCP Award as a percentage of base salary for each Executive.

| Executive                                | VCP Award Target for 2018 | Scorecard Result for 2018 <sup>1</sup> | VCP Award Paid for 2018 <sup>2</sup> | % of Salary |
|--|---------------------------|--|--------------------------------------|-------------|
| <b>E. Philip Wenger</b>                  | \$864,860                 | \$665,942                              | \$566,051                            | 55.6%       |
| <b>Mark R. McCollom</b>                  | \$297,500                 | \$229,075                              | \$194,714                            | 45.8%       |
| <b>Philmer H. Rohrbaugh <sup>3</sup></b> | \$61,305                  | \$47,205                               | \$40,124                             | 32.7%       |
| <b>Curtis J. Myers</b>                   | \$357,000                 | \$274,890                              | \$233,657                            | 45.8%       |
| <b>Angela M. Snyder</b>                  | \$192,500                 | \$148,225                              | \$125,991                            | 32.7%       |
| <b>Meg R. Mueller</b>                    | \$192,500                 | \$148,225                              | \$125,991                            | 32.7%       |

<sup>1</sup> Scorecard result for 2018 represents the VCP Award for by each Executive based on scorecard performance before the application of a 15% downward corporate modifier applied by the HR Committee.

<sup>2</sup> VCP Award paid for 2018 to each Executive. Each VCP Award was 65.5% of target with a 15% downward corporate modifier applied by the HR Committee. The amounts paid are also included in the Summary Compensation Table on Page 52.

<sup>3</sup> Mr. Rohrbaugh retired as a member of Fulton senior management as of March 30, 2018 and his VCP Award target, scorecard result and VCP Award paid were prorated.

*Equity Awards:* For 2018, 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 FW Cook, equal to a percentage of base salary, as of January 1, 2018, of 125% for the CEO, 100% for Mr. McCollom and Mr. Myers, and 75% 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. The HR Committee did not award any Performance Shares above target dollar amount to any Executive in 2018. Mr. Rohrbaugh retired as a member of Fulton senior management as of March 30, 2018 and did not receive any Performance Shares in 2018. The Performance Shares were granted to the Executives on May 1, 2018. 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, as summarized below:

**Equity Award Structure of 2018 Performance Shares**

|   |                    | 2018 (Year of grant)   | 2019 | 2020 | 2021 (Vesting) |
|---|--------------------|--|------|------|----------------|
| 37.5% Allocation<br>A – ROA with<br>Profit Trigger                    | Component A        | Grant  |      |      |                |
|   | Performance Period | January 1, 2018 to December 31, 2018   |      |      |                |
|   | Vesting            | <u>Absolute ROA</u> for one year, then two additional years of vesting based on service. Performance Shares earned for 2018 conditioned on achievement of the Profit Trigger |      |      |                |
| 37.5% Allocation<br>B – TSR with no<br>Profit Trigger                 | Component B        | Grant  |      |      |                |
|   | Performance Period | May 1, 2018 to March 31, 2021  |      |      |                |
|   | Vesting            | <u>Relative TSR to Peer Group</u> determines the number of Performance Shares earned for the performance period in 2021  |      |      |                |
| 0% to 37.5%<br>Allocation<br>C – Time-Based<br>with Profit<br>Trigger | Component C        | Grant  |      |      |                |
|   | Vesting            | <u>3-year Time-Based cliff vesting</u><br>Performance Shares conditioned on achievement of the Profit Trigger  |      |      |                |

The performance goals and potential payouts for ROA and TSR Components A and B for 2018 were:

| Category         | Component A<br>Absolute ROA<br>Performance Criteria | Component A<br>Payout Potential<br>(% of target) | Component B<br>TSR Performance<br>Relative to Peers | Component B<br>Payout Potential<br>(% of target) |
|------------------|---|--|---|--|
| <b>Threshold</b> | 80% of Budget                                       | 25%  | 25 <sup>th</sup> Percentile TSR                     | 25%  |
| <b>Target</b>    | 100% of Budget                                      | 100%   | 50 <sup>th</sup> Percentile TSR                     | 100%   |
| <b>Maximum</b>   | 120 % of Budget                                     | 150%   | 80 <sup>th</sup> Percentile TSR                     | 150%   |



The following provides more detail related to the 2018 Components:

|   |  |
|---|--|
| <p><b>Component A<br/>(Absolute ROA<br/>With Profit<br/>Trigger)<br/>37.5% Target</b></p> | <ul style="list-style-type: none"> <li>• 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 2018 ROA measured relative to a target set at 100% of Fulton’s budgeted ROA for 2018 and further conditioned upon Fulton achieving the Profit Trigger.</li> <li>• Based on Fulton’s 2018 reported ROA performance of 1.033%, which fell between threshold and target levels, the number of Performance Shares that may vest was reduced to 81.44% 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.</li> </ul> |
| <p><b>Component B<br/>(Relative TSR)<br/>37.5% Target</b></p>                             | <ul style="list-style-type: none"> <li>• 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, 2018 through March 31, 2021 relative to that of the 2018 Peer Group.</li> </ul>   |
| <p><b>Component C<br/>(Time-Based<br/>with Profit<br/>Trigger)<br/>25% Target</b></p>     | <ul style="list-style-type: none"> <li>• 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).</li> <li>• All the Named Executive Officers received a Component C award at 25 % of target. The Executives will receive all or none of these Performance Shares, subject to achievement of the Profit Trigger.</li> </ul>  |

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 ROA or TSR is not achieved. In addition, Components A and C are designed to be forfeited if the Profit Trigger is not achieved. Finally, unless waived by the HR Committee upon an eligible retirement, if the Executive does not satisfy the continuous service requirement in the 2013 Plan, all Performance Shares awarded are forfeited.

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, 2018.

| Executive        | Grant Date Fair Value of Performance Shares <sup>1</sup> | Total Performance Shares Awarded <sup>2</sup> | Component A (ROA Goal) Shares Awarded <sup>3</sup> | Component B (TSR Goal) Shares Awarded | Component C Shares Awarded |
|------------------|--|---|--|---------------------------------------|----------------------------|
| E. Philip Wenger | \$1,134,491  | 73,187  | 27,445   | 27,445                                | 18,297                     |
| Mark R. McCollom | \$386,381  | 24,926  | 9,348  | 9,348                                 | 6,230                      |
| Curtis J. Myers  | \$463,673  | 29,912  | 11,217   | 11,217                                | 7,478                      |
| Angela M. Snyder | \$262,512  | 16,935  | 6,351  | 6,351                                 | 4,233                      |
| Meg R. Mueller   | \$262,512  | 16,935  | 6,351  | 6,351                                 | 4,233                      |

<sup>1</sup> See note 4 to the Summary Compensation Table on Page 52 for additional information regarding the grant date fair value of the Performance Shares.

<sup>2</sup> Shares listed do not include accrued dividend equivalents. Mr. Rohrbaugh did not receive a Performance Share Award in 2018.

<sup>3</sup> Based on Fulton’s ROA for the year ended December 31, 2018, the number of Component A Performance Shares that may vest, subject to the achievement of the Profit Trigger, has been reduced to: 22,351 shares for Mr. Wenger; 7,613 shares for Mr. McCollom; 9,135 shares for Mr. Myers and 5,172 shares for Ms. Snyder and Ms. Mueller. Such shares may be further reduced to zero if the Profit Trigger is not met at the end of the performance period.

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. During 2018, Fulton limits payroll deduction and annual employee participation in the ESPP to the lesser of \$7,500 or 15% of a participant’s pay. 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 2018 are stated in footnote 8 of the “Summary Compensation Table” on Page 52. 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. Myers and Ms. Snyder 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 2018 amounts are included in the “All Other Income” column of the “Summary Compensation Table” on Page 52 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 59 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 agreement with Mr. Rohrbaugh was entered into on November 1, 2012 and expired by its terms on December 31, 2017. In addition, Fulton entered into separate employment agreements and change in control agreements with the other Executives, 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 59. The Employment Agreements Fulton executed with the Executives do not contain an excise tax gross-up for taxes applicable to termination payments as a result of the Executive’s termination, except that the Employment Agreement executed with Mr. Wenger, the only legacy agreement, provides for an excise tax gross up. The Employment Agreements with the other Executives 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 2019 meeting, the HR Committee conducted its annual risk review of all compensation plans in effect as of December 31, 2018. At this meeting, Beth Ann L. 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 appear to promote undue risk-taking. 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. 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.

## 12. Other Compensation Elements

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 2018, Fulton awarded Performance Shares and time-based restricted stock units to eligible participants under the 2013 Plan with a grant date of May 1, 2018, 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 and Pledging Policy and Stock Trading Procedures: Fulton has adopted an Insider Trading Policy to facilitate securities law compliance in a number of areas. Pursuant to this policy, which was last updated in 2018, 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. Since 2014 Fulton's Insider Trading Policy has prohibited the pledging of shares, but grandfathered any pledges made prior to the amendment in 2014. 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 non-employee 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 formal Fulton common stock ownership guidelines for non-employee directors and the Executives. The director ownership guideline was updated in September 2013, to require each director to own at least \$175,000 of eligible Fulton common stock, 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.

In December 2018, Fulton updated its non-employee director stock ownership guideline, effective January 1, 2019, to require each non-employee director to own at least \$300,000 of eligible Fulton equity, within the later of five (5) full calendar years of first becoming a director, or five (5) full calendar years after the guideline was amended. Current Fulton directors have until December 31, 2023 to achieve this new and enhanced equity ownership guideline. Similar stock ownership guidelines 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 |
|--|-----|-----------|-----|------------------|
| <b>Fulton Common Stock Ownership Guideline as a Multiple of Annual Base Salary</b> | 3.0 | 1.5       | 1.5 | 1.0              |

Compliance with the stock ownership guidelines is determined annually based on stock ownership and the closing price of Fulton's common stock 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 owned individually, deferred vested stock unit awards, shares held in retirement accounts, indirect ownership and jointly held shares of Fulton common stock. 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 currently employed by Fulton have satisfied the stock ownership guidelines as of December 31, 2018. Mr. McCollom is required to achieve his targeted stock ownership by December 31, 2022 to satisfy the stock ownership guideline for his position.

As of December 31, 2018, all of Fulton's directors have satisfied the existing \$175,000 ownership guideline, except Director Snyder. Under the current stock ownership guideline, Director Snyder was required to achieve the targeted stock ownership level by December 31, 2021. With the enhanced director ownership guideline that became effective January 1, 2019, the directors have until December 31, 2023 to achieve the new \$300,000 stock ownership guideline.

*Management Succession:* The topic of management succession is discussed and reviewed at least annually at Fulton. At the December 2018 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 2018, 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, 2018, and the 2019 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 2018 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 <sup>1</sup>  | Year | Salary <sup>2</sup><br>(\$) | Bonus <sup>3</sup><br>(\$) | Stock Awards <sup>4</sup><br>(\$) | Option Awards <sup>5</sup><br>(\$) | Non-Equity Incentive Plan Compensation <sup>6</sup><br>(\$) | Change in Pension Value and Non-qualified Deferred Compensation Earnings <sup>7</sup><br>(\$) | All Other Compensation <sup>8</sup><br>(\$) | Total<br>(\$) |
|---|------|-----------------------------|----------------------------|-----------------------------------|------------------------------------|---|---|---|---------------|
| E. Philip Wenger<br>Chairman and Chief Executive Officer of Fulton  | 2018 | 1,017,482                   | 0                          | 1,134,491                         | 0                                  | 566,051   | 0   | 118,936                                     | 2,836,960     |
|   | 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     |
| Mark R. McCollom <sup>9</sup><br>Senior Executive Vice President and Chief Financial Officer of Fulton      | 2018 | 425,000                     | 0                          | 386,381                           | 0                                  | 194,714   | 0   | 29,229                                      | 1,035,324     |
|   | 2017 | 49,038                      | 125,000                    | 249,984                           | 0                                  | 0   | 0   | 1,325                                       | 425,422       |
|   | 2016 | -                           | -                          | -                                 | -                                  | -   | -   | -   | -             |
| Philmer H. Rohrbaugh <sup>10</sup><br>Senior Executive Vice President and Chief Financial Officer of Fulton | 2018 | 164,578                     | 0                          | 0                                 | 0                                  | 40,124  | 0   | 23,095                                      | 227,797       |
|   | 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     |
| Curtis J. Myers<br>President and Chief Operating Officer of Fulton  | 2018 | 510,000                     | 0                          | 463,673                           | 0                                  | 233,657   | 0   | 65,477                                      | 1,272,807     |
|   | 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       |
| Angela M. Snyder <sup>11</sup><br>Senior Executive Vice President and Head of Consumer Banking              | 2018 | 385,000                     | 0                          | 262,512                           | 0                                  | 125,991   | 0   | 42,861                                      | 816,364       |
|   | 2017 | -                           | -                          | -                                 | -                                  | -   | -   | -   | -             |
|   | 2016 | -                           | -                          | -                                 | -                                  | -   | -   | -   | -             |
| Meg R. Mueller<br>Senior Executive Vice President and Head of Commercial Business                           | 2018 | 385,000                     | 0                          | 262,512                           | 0                                  | 125,991   | 0   | 11,516                                      | 785,019       |
|   | 2017 | 344,884                     | 0                          | 238,699                           | 0                                  | 186,565   | 0   | 7,843                                       | 777,991       |
|   | 2016 | 317,945                     | 0                          | 197,979                           | 0                                  | 143,791   | 0   | 3,634                                       | 663,349       |

<sup>1</sup> Titles and positions listed are as of Fulton's fiscal year-end of December 31, 2018, except for Mr. Rohrbaugh who ceased to serve as Fulton's Chief Financial Officer effective March 1, 2018 and retired as a member of Fulton's senior management effective March 30, 2018.

<sup>2</sup> 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 19, 2019, upon the recommendation of the HR Committee, the Board of Directors approved 2019 annual base salaries for Mr. Wenger, Mr. McCollom, Mr. Myers, Ms. Snyder and Ms. Mueller to \$1,048,822, \$435,625, \$561,000, \$394,625 and \$394,625, respectively, with the changes to the annual base salaries to be effective with the biweekly pay period that includes April 1, 2019.

<sup>3</sup> The HR Committee did not award any bonus payments in 2018, 2017 or 2016 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.

<sup>4</sup> Amounts represent the grant date fair values of Performance Shares, except that the amount listed for Mr. McCollom under 2017 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 2018, 2017 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 2018, 2017 and 2016.

| Name                               | Grant Date | Performance Share Grant Date Fair Value Assuming Highest Performance Level Achieved (\$) | Number of Performance Shares Granted to 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                   | 5/1/2018   | 1,545,754  | 73,187  | 17.05   | 12.92   | 15.36   |
|                                    | 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   |
| Mark R. McCollom <sup>9</sup>      | 5/1/2018   | 526,461  | 24,926  | 17.05   | 12.92   | 15.36   |
|                                    | 5/1/2017   | -  | -   | -   | -   | -   |
|                                    | 4/1/2016   | -  | -   | -   | -   | -   |
| Philmer H. Rohrbaugh <sup>10</sup> | 5/1/2018   | 0  | 0   | -   | -   | -   |
|                                    | 5/1/2017   | 566,166  | 23,387  | 18.70   | 17.25   | 18.17   |
|                                    | 4/1/2016   | 496,279  | 28,657  | 13.99   | 11.23   | 13.01   |
| Curtis J. Myers                    | 5/1/2018   | 631,760  | 29,912  | 17.05   | 12.92   | 15.36   |
|                                    | 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   |
| Angela M. Snyder <sup>11</sup>     | 5/1/2018   | 357,682  | 16,935  | 17.05   | 12.92   | 15.36   |
|                                    | 5/1/2017   | -  | -   | -   | -   | -   |
|                                    | 5/1/2016   | -  | -   | -   | -   | -   |
| Meg R. Mueller                     | 5/1/2018   | 357,682  | 16,935  | 17.05   | 12.92   | 15.36   |
|                                    | 5/1/2017   | 327,317  | 13,147  | 18.70   | 17.25   | 18.17   |
|                                    | 4/1/2016   | 270,232  | 15,281  | 13.99   | 11.23   | 13.01   |

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 2018, 2017 and 2016, including the assumptions made in determining those valuations, see Fulton's Annual Report on Form 10-K for the years ended December 31, 2018, December 31, 2017 and December 31, 2016, respectively, under Item 8 – Financial Statements and Supplementary Data, “Note 15 – Stock-Based Compensation Plans.”

<sup>5</sup> Fulton did not grant options in 2018, 2017 or 2016 to the Executives and there were no forfeitures of options during those periods by any of the Executives. Options granted in 2006 expired unexercised in 2016, including the following number of option held by the Executives: Mr. Wenger – 24,000; Mr. Myers – 5,500; Ms. Snyder – 9,000; and Ms. Mueller – 4,710.

<sup>6</sup> The VCP Awards reported in this column are substantially based on performance goal achievement and on individual scorecard results as described further beginning on Page 43.

<sup>7</sup> 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 2018, 2017 or 2016. 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 58. The rate of return for an individual participant’s account is based on the performance of the various investment options selected by each participant.

<sup>8</sup> 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-owned automobile or the taxable automobile allowance, as reported on the Executive’s 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. For a short period following Mr. Rohrbaugh’s retirement in 2018, he was engaged as an independent contractor and paid \$150.00 per hour and reimbursed for expenses related to projects for Fulton. Mr. Rohrbaugh was paid a total of \$17,550 during 2018 under this arrangement and this amount has been included under Other Compensation and Perquisites in the table below.

| Name                               | Year | Qualified Retirement Plan Company Contribution (\$) | Nonqualified Deferred Compensation Plan Company Contribution (\$) | Club Memberships (\$) | Automobile Perquisites (\$) | Other Compensation and Perquisites (\$) | Total All Other Compensation (\$) |
|------------------------------------|------|---|---|-----------------------|-----------------------------|---|-----------------------------------|
| E. Philip Wenger                   | 2018 | 13,750  | 81,745  | 16,988                | 3,426                       | 3,027                                   | 118,936                           |
|                                    | 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                            |
| Mark R. McCollom <sup>9</sup>      | 2018 | 0   | 0   | 12,200                | 15,000                      | 2,029                                   | 29,229                            |
|                                    | 2017 | 0   | 0   | 0                     | 1,250                       | 75                                      | 1,325                             |
|                                    | 2016 | -   | -   | -                     | -                           | -                                       | -                                 |
| Philmer H. Rohrbaugh <sup>10</sup> | 2018 | 0   | 0   | 5,545                 | 0                           | 17,550                                  | 23,095                            |
|                                    | 2017 | 0   | 0   | 14,664                | 150                         | 1,522                                   | 16,336                            |
|                                    | 2016 | 0   | 0   | 13,832                | 1,567                       | 900                                     | 16,299                            |
| Curtis J. Myers                    | 2018 | 13,750  | 23,368  | 16,753                | 2,919                       | 8,687                                   | 65,477                            |
|                                    | 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                            |
| Angela M. Snyder <sup>11</sup>     | 2018 | 13,315  | 11,951  | 8,589                 | 1,569                       | 7,437                                   | 42,861                            |
|                                    | 2017 | -   | -   | -                     | -                           | -                                       | -                                 |
|                                    | 2016 | -   | -   | -                     | -                           | -                                       | -                                 |
| Meg R. Mueller                     | 2018 | 0   | 0   | 4,168                 | 833                         | 6,515                                   | 11,516                            |
|                                    | 2017 | 0   | 0   | 3,587                 | 3,356                       | 900                                     | 7,843                             |
|                                    | 2016 | 0   | 0   | 0                     | 3,342                       | 292                                     | 3,634                             |

<sup>9</sup> Mr. McCollom was hired on November 20, 2017 and he became Fulton’s Chief Financial Officer effective March, 2, 2018.

<sup>10</sup> Mr. Rohrbaugh ceased to serve as Fulton’s Chief Financial Officer March 1, 2018 and retired as a member of Fulton’s senior management effective March 30, 2018. Effective April 1, 2018 his annual base salary was reduced to \$125,000 once he ceased to be a member of Fulton’s senior management. He continued as an employee of Fulton until June 2, 2018, after which Mr. Rohrbaugh provided services to Fulton as an independent contractor until June 30, 2018. The additional compensation he received as an independent contractor has been included under All Other Compensation.

<sup>11</sup> Ms. Snyder became a Named Executive Officer of Fulton for the first time in 2018. Pursuant to SEC rules, Ms. Snyder’s compensation for 2017 and 2016 is not included.



GRANTS OF PLAN-BASED AWARDS TABLE

| Name                 | Grant Date | Approval Date <sup>1</sup> | Estimated Future or Possible Payouts Under Non-Equity Incentive Plan Awards <sup>2</sup> |             |              | Estimated Future or Possible Payouts Under Equity Incentive Plan Awards <sup>3</sup> |            |             | 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 <sup>4</sup> (\$) |
|----------------------|------------|----------------------------|--|-------------|--------------|--|------------|-------------|--|--|---|-------------------------------------|--|
|                      |            |                            | Threshold (\$)   | Target (\$) | Maximum (\$) | Threshold (#)  | Target (#) | Maximum (#) |  |  |   |                                     |  |
| E. Philip Wenger     | 5/1/2018   | 3/20/2018                  | -  | -           | -            | 32,019   | 73,187     | 100,632     | -  | -  | -   | 17.05                               | 1,134,491  |
| E. Philip Wenger     | -          | 3/20/2018                  | 216,215  | 864,860     | 1,297,290    | -  | -          | -           | -  | -  | -   | -                                   | -  |
| Mark R. McCollom     | 5/1/2018   | 3/20/2018                  | -  | -           | -            | 10,904   | 24,926     | 34,274      | -  | -  | -   | 17.05                               | 386,381  |
| Mark R. McCollom     | -          | 3/20/2018                  | 74,375   | 297,500     | 446,250      | -  | -          | -           | -  | -  | -   | -                                   | -  |
| Philmer H. Rohrbaugh | -          | 3/20/2018                  | 15,326   | 61,305      | 91,957       | -  | -          | -           | -  | -  | -   | -                                   | -  |
| Curtis J. Myers      | 5/1/2018   | 3/20/2018                  | -  | -           | -            | 13,086   | 29,912     | 41,129      | -  | -  | -   | 17.05                               | 463,673  |
| Curtis J. Myers      | -          | 3/20/2018                  | 89,250   | 357,000     | 535,500      | -  | -          | -           | -  | -  | -   | -                                   | -  |
| Angela M. Snyder     | 5/1/2018   | 3/20/2018                  | -  | -           | -            | 7,409  | 16,935     | 23,286      | -  | -  | -   | 17.05                               | 262,512  |
| Angela M. Snyder     | -          | 3/20/2018                  | 48,125   | 192,500     | 288,750      | -  | -          | -           | -  | -  | -   | -                                   | -  |
| Meg R. Mueller       | 5/1/2018   | 3/20/2018                  | -  | -           | -            | 7,409  | 16,935     | 23,286      | -  | -  | -   | 17.05                               | 262,512  |
| Meg R. Mueller       | -          | 3/20/2018                  | 48,125   | 192,500     | 288,750      | -  | -          | -           | -  | -  | -   | -                                   | -  |

<sup>1</sup> The grants of Performance Shares were approved at the March 2018 HR Committee and Board of Directors meetings, pursuant to the 2013 Plan, with a grant date of May 1, 2018. Based on the recommendation of the HR Committee, the independent directors of the Board of Directors also approved the non-equity incentive plan awards under the 2013 Plan on March 21, 2018.

<sup>2</sup> The Executives were eligible to receive VCP Awards for 2018 pursuant to the 2013 Plan that is discussed beginning on Page 43. Amounts are calculated based on 2018 base salary paid while employed as an Executive.

<sup>3</sup> The amounts in this column represent the number of Performance Shares granted to the Executives on May 1, 2018 based on the closing price of \$17.05 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 46. 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 an absolute ROA target for 2018 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, 2018 through March 31, 2021; 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, 2021.

<sup>4</sup> See Note 4 to the Summary Compensation Table on Page 52 for additional information regarding the grant date fair value of the Performance Shares. The grant date fair value of each equity award is computed in accordance with FASB ASC Topic 718.

**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END TABLE**

| Name                 | Option Awards   |   |   |                            |                        | 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 (\$) <sup>1</sup> |
| E. Philip Wenger     | -   | -   | -   | -                          | -                      | -   | -  | 86,901 <sup>2</sup>   | 1,345,232   |
| E. Philip Wenger     | -   | -   | -   | -                          | -                      | -   | -  | 57,458 <sup>3</sup>   | 889,454   |
| E. Philip Wenger     | -   | -   | -   | -                          | -                      | -   | -  | 69,373 <sup>4</sup>   | 1,073,895   |
| Mark R. McCollom     | -   | -   | -   | -                          | -                      | -   | -  | 23,627 <sup>4</sup>   | 365,745   |
| Mark R. McCollom     | -   | -   | -   | -                          | -                      | 14,335  | 221,904  | -   | -   |
| Philmer H. Rohrbaugh | -   | -   | -   | -                          | -                      | -   | -  | 27,069 <sup>2</sup>   | 419,028   |
| Philmer H. Rohrbaugh | -   | -   | -   | -                          | -                      | -   | -  | 21,060 <sup>3</sup>   | 326,014   |
| 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      | -   | -   | -   | -                          | -                      | -   | -  | 18,644 <sup>2</sup>   | 288,611   |
| Curtis J. Myers      | -   | -   | -   | -                          | -                      | -   | -  | 13,889 <sup>3</sup>   | 215,007   |
| Curtis J. Myers      | -   | -   | -   | -                          | -                      | -   | -  | 28,353 <sup>4</sup>   | 438,907   |
| Angela M. Snyder     | -   | -   | -   | -                          | -                      | -   | -  | 5,911 <sup>2</sup>  | 91,501  |
| Angela M. Snyder     | -   | -   | -   | -                          | -                      | -   | -  | 4,074 <sup>3</sup>  | 63,059  |
| Angela M. Snyder     | -   | -   | -   | -                          | -                      | -   | -  | 16,052 <sup>4</sup>   | 248,488   |
| Meg R. Mueller       | 11,250  | 0   | 0   | 10.880                     | 6/30/2021              | -   | -  | 14,219 <sup>2</sup>   | 220,112   |
| Meg R. Mueller       | 11,400  | 0   | 0   | 10.475                     | 3/31/2022              | -   | -  | 11,603 <sup>3</sup>   | 179,618   |
| Meg R. Mueller       | 11,554  | 0   | 0   | 11.580                     | 3/31/2023              | -   | -  | 16,052 <sup>4</sup>   | 248,488   |

<sup>1</sup> Market value of Performance Shares shown is based on the closing price of Fulton common stock of \$15.48 on December 31, 2018, the last trading day of 2018. The number of Performance Shares includes dividend equivalents for all dividends that have been paid by Fulton from the Performance Share grant date through December 31, 2018.

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 target level of performance for 2016, 2017 and 2018, based on relative TSR performance through December 31, 2018; 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.

<sup>2</sup> Performance Shares granted on May 1, 2016. If the performance criteria is achieved and other requirements under the 2013 Plan are satisfied, these Performance Shares will vest on May 1, 2019.

<sup>3</sup> 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, 2020.

<sup>4</sup> Performance Shares granted on May 1, 2018. If the performance criteria are achieved and other requirements under the 2013 Plan are satisfied, these Performance Shares will vest on May 1, 2021.

**OPTION EXERCISES AND STOCK VESTED TABLE <sup>1</sup>**

| 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 <sup>2</sup> (\$) |
| E. Philip Wenger     | 0   | 0                               | 77,940                                   | 1,383,426                                   |
| Mark R. McCollom     | 0   | 0                               | 0  | 0   |
| Philmer H. Rohrbaugh | 0   | 0                               | 23,703                                   | 420,726                                     |
| Curtis J. Myers      | 0   | 0                               | 18,392                                   | 326,458                                     |
| Angela M. Snyder     | 0   | 0                               | 7,241                                    | 128,526                                     |
| Meg R. Mueller       | 0   | 0                               | 14,028                                   | 248,997                                     |

<sup>1</sup> Except for Mr. McCollom, all of the Executives had Performance Shares that vested during 2018.

<sup>2</sup> Shares that vested on April 1, 2018 for Messrs. Wenger, Rohrbaugh, Myers and Ms. Snyder and Ms. Mueller were valued at \$17.75 per share, the closing price of Fulton's common stock on March 29, 2018, the preceding trading day because April 1, 2018 was not a trading day.

**PENSION BENEFITS TABLE <sup>3</sup>**

| Name                 | Plan Name | Number of Years Credited Service (#) | Present Value of Accumulated Benefit (\$) | Payments During Last Fiscal Year (\$) |
|----------------------|-----------|--------------------------------------|---|---------------------------------------|
| E. Philip Wenger     | NA        | -                                    | -   | -                                     |
| Mark R. McCollom     | NA        | -                                    | -   | -                                     |
| Philmer H. Rohrbaugh | NA        | -                                    | -   | -                                     |
| Curtis J. Myers      | NA        | -                                    | -   | -                                     |
| Angela M. Snyder     | NA        | -                                    | -   | -                                     |
| Meg R. Mueller       | NA        | -                                    | -   | -                                     |

<sup>3</sup> During 2018, 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<br>(\$) | Registrant Contributions in Last FY <sup>1</sup><br>(\$) | Aggregate Earnings in Last FY <sup>2</sup><br>(\$) | Aggregate Withdrawals/<br>Distributions<br>(\$) | Aggregate Balance at Last FYE <sup>3</sup><br>(\$) |
|----------------------|--|--|--|---|--|
| E. Philip Wenger     | 167,953                                    | 81,745   | (97,816)   | 0   | 1,589,208  |
| Mark R. McCollom     | 0  | 0  | 0  | 0   | 0  |
| Philmer H. Rohrbaugh | 0  | 0  | 0  | 0   | 0  |
| Curtis J. Myers      | 39,231                                     | 23,368   | (21,613)   | 0   | 341,810  |
| Angela M. Snyder     | 70,369                                     | 11,951   | (25,289)   | 0   | 362,290  |
| Meg R. Mueller       | 0  | 0  | 45   | 0   | 2,651  |

<sup>1</sup> 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 2018, these matching contributions are made based on an Executive's eligible salary and bonus that exceeds the federal limit of \$275,000 for 2018. See the table contained in footnote 8 of the "Summary Compensation Table" on Page 52. 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. 2018 contributions were credited to each of the Executive's accounts in early 2019.

<sup>2</sup> 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 2018, the available investment funds included Federated Total Return Bond Fund (FTRBX), Fidelity Advisory Diversified International Fund (FZABX), FMI International Institutional (FMIYX), Goldman Sachs Core Fixed Income Fund (GSFIX), Janus Henderson Enterprise I (JMGRX), Vanguard Mid Cap Value Index Fund (VMVAX), Goldman Sachs Financial Square Government Fund (FGTXX), MFS Value Fund I (MEIIX), Vanguard Inflation Protected Securities Fund (VAIPX), T. Rowe Price Growth Stock Fund (PRGFX), T. Rowe Price Retirement 2010 (TRPAX), T. Rowe Price Retirement 2020 (TRBRX), T. Rowe Price Retirement 2030 (TRPCX), T. Rowe Price Retirement 2040 (TRPDX), T. Rowe Price Retirement 2050 (TRPMX), T. Rowe Price Retirement 2060 (TRPLX), 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 II 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 48.

<sup>3</sup> Balances include the 2018 contributions made by Fulton and credited to the Executives' accounts in early 2019. 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 \$891,183 was reported (2007 to 2018);
- For Mr. Myers, a total of \$49,244 was reported (2016 to 2018).
- For Ms. Snyder, a total of \$11,951 was reported (2018).

POTENTIAL PAYMENTS UPON TERMINATION AND GOLDEN PARACHUTE  
COMPENSATION TABLE

| Potential Payments as of December 31, 2018 <sup>1</sup> |  |  |   |  |  |   |
|---|--|--|---|--|--|---|
| Executive   | Voluntary Termination <sup>2</sup> or Termination for Cause <sup>3</sup> | Termination Without Cause or for Good Reason – Before a Change in Control <sup>4,5</sup> | Termination Without Cause or for Good Reason – Upon or After a Change in Control <sup>6,7,8</sup> | Termination Due to Retirement <sup>9</sup> | Termination Due to Disability <sup>10,11</sup> | Termination Due to Death <sup>12,13</sup> |
| <b>E. Philip Wenger</b>                                 |  |  |   |  |  |   |
| Cash (\$)   | 0  | 1,023,241  | 3,831,326   | 0  | 1,125,565                                      | 2,046,482                                 |
| Equity (\$)   | 0  | 0  | 3,308,581   | 0  | 3,308,581                                      | 3,308,581                                 |
| Pension/NQDC(\$)  | 0  | 0  | 191,566   | 0  | 0  | 0   |
| Perquisites/Benefits(\$)                                | 0  | 12,000   | 74,000  | 0  | 18,000   | 0   |
| Tax Reimbursement(\$)                                   | 0  | 0  | 0   | 0  | 0  | 1,291,628                                 |
| <b>TOTAL (\$)</b>                                       | <b>0</b>   | <b>1,035,241</b>   | <b>7,405,474</b>  | <b>0</b>                                   | <b>4,452,146</b>                               | <b>6,646,691</b>                          |
| <b>Mark R. McCollom</b>                                 |  |  |   |  |  |   |
| Cash (\$)   | 0  | 619,714  | 1,239,428   | 0  | 467,500  | 850,000                                   |
| Equity (\$)   | 0  | 0  | 587,649   | 221,904                                    | 587,649  | 587,649                                   |
| Pension/NQDC(\$)  | 0  | 0  | 61,971  | 0  | 0  | 0   |
| Perquisites/Benefits(\$)                                | 0  | 12,000   | 34,000  | 0  | 18,000   | 0   |
| Tax Reimbursement(\$)                                   | 0  | 0  | 0   | 0  | 0  | 536,474                                   |
| <b>TOTAL (\$)</b>                                       | <b>0</b>   | <b>631,714</b>   | <b>1,923,049</b>  | <b>221,904</b>                             | <b>1,073,149</b>                               | <b>1,974,123</b>                          |
| <b>Curtis J. Myers</b>                                  |  |  |   |  |  |   |
| Cash (\$)   | 0  | 743,657  | 1,468,118   | 0  | 561,000  | 1,020,000                                 |
| Equity (\$)   | 253,417  | 253,417  | 1,195,943   | 253,417                                    | 1,195,943                                      | 1,195,943                                 |
| Pension/NQDC(\$)  | 0  | 0  | 74,366  | 0  | 0  | 0   |
| Perquisites/Benefits(\$)                                | 0  | 12,000   | 34,000  | 0  | 18,000   | 0   |
| Tax Reimbursement(\$)                                   | 0  | 0  | 0   | 0  | 0  | 643,769                                   |
| <b>TOTAL (\$)</b>                                       | <b>253,417</b>   | <b>1,009,074</b>   | <b>2,772,427</b>  | <b>253,417</b>                             | <b>1,774,943</b>                               | <b>2,859,712</b>                          |
| <b>Angela M. Snyder</b>                                 |  |  |   |  |  |   |
| Cash (\$)   | 0  | 510,991  | 1,021,982   | 0  | 423,500  | 770,000                                   |
| Equity (\$)   | 0  | 0  | 403,048   | 0  | 403,048  | 403,048                                   |
| Pension/NQDC(\$)  | 0  | 0  | 51,099  | 0  | 0  | 0   |
| Perquisites/Benefits(\$)                                | 0  | 12,000   | 34,000  | 0  | 18,000   | 0   |
| Tax Reimbursement(\$)                                   | 0  | 0  | 0   | 0  | 0  | 485,982                                   |
| <b>TOTAL (\$)</b>                                       | <b>0</b>   | <b>522,991</b>   | <b>1,510,129</b>  | <b>0</b>                                   | <b>844,548</b>                                 | <b>1,659,030</b>                          |
| <b>Meg R. Mueller</b>                                   |  |  |   |  |  |   |
| Cash (\$)   | 0  | 571,565  | 1,143,130   | 0  | 423,500  | 770,000                                   |
| Equity (\$)   | 153,868  | 153,868  | 802,085   | 153,868                                    | 802,085  | 802,085                                   |
| Pension/NQDC(\$)  | 0  | 0  | 57,157  | 0  | 0  | 0   |
| Perquisites/Benefits(\$)                                | 0  | 12,000   | 34,000  | 0  | 18,000   | 0   |
| Tax Reimbursement(\$)                                   | 0  | 0  | 0   | 0  | 0  | 485,982                                   |
| <b>TOTAL (\$)</b>                                       | <b>153,868</b>   | <b>737,433</b>   | <b>2,036,372</b>  | <b>153,868</b>                             | <b>1,243,585</b>                               | <b>2,058,067</b>                          |

<sup>1</sup> 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 \$15.48 on December 31, 2018, the last trading day of 2018. Mr. Rohrbaugh was not included since he was not employed by Fulton as of December 31, 2018.

<sup>2</sup> **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 4 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.

<sup>3</sup> **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.

<sup>4</sup> **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 one 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 Mr. Wenger, 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 one-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.

<sup>5</sup> Cash amount listed for each Executive includes a severance payment based on the Executive's 2018 base salary. The amounts listed under Cash assume no discretionary bonus was paid to Mr. Wenger, but the payments to the other Executives in the table assume the payment of their 2018 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 one-year severance period attributed to each Executive.

<sup>6</sup> **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 Mr. Wenger is defined in his Employment Agreement 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 the other Executives in the table, 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 two 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 two 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 three 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 two 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 two years. With respect to Mr. Wenger, if he would not be eligible to continue to participate in any employee welfare benefit plan, he would be compensated on an annual basis, in advance, for such plan in an amount equal to the cost Fulton would have incurred, had he been eligible to participate in such plan, plus any permitted gross-up for any taxes applicable thereto. In addition, Mr. Wenger would be entitled to receive continuation of other executive perquisites, such as club memberships and an employer-provided automobile, for a period of two years. The other Executives are not entitled to receive continuation of other executive perquisites, such as club memberships and employer-provided automobiles, however, the other Executives have the ability to purchase, at book value, any employer-provided automobile used by the Executive at the time of their termination.

Mr. Wenger's Employment Agreement provides that, in the event any payment or distribution by Fulton to or for the benefit of Mr. Wenger would be subject to excise tax as a Golden Parachute, Mr. Wenger would 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 the other Executives do not contain a "gross-up provision." Further, pursuant to the terms of the Employment Agreements for the other Executives, their total payments are reduced to the extent required to avoid a federal excise tax imposed under Section 280G of the Tax Code.

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 determinable, the values assume the applicable "target" levels of performance have been attained.

<sup>7</sup> Cash amounts listed are two times 2018 base salary as of year-end and the highest VCP Awards paid for the last three years for each Executive. Mr. Myers' cash amount has been reduced by \$19,196 pursuant to the terms of the Executive's Employment Agreement, which represents the reduction 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, unvested time-based stock unit awards and unvested Performance Shares, which would vest as described in the last paragraph of Footnote 6 above, as of December 31, 2018. 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 attributed to each Executive, and, with respect to Mr. Wenger, an additional \$20,000 per year for club memberships, vehicle and other expenses paid by Fulton, for his severance period.

<sup>8</sup> 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.

<sup>9</sup> **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 five 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, but, subject to review and approval 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 five years of service to Fulton or any affiliate and retired as of December 31, 2018. The Executives would generally have one or two years from the date of retirement, but not beyond the original option expiration date, to exercise their stock options.

<sup>10</sup> **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 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.

<sup>11</sup> Cash amount for all the Executives is six 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, time-based restricted stock units 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 one year from the date of disability, but not beyond the original option expiration date, to exercise stock options.

<sup>12</sup> **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 48.

<sup>13</sup> 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, with Performance Shares vesting as described in the last paragraph of Footnote 6 above. The estate of the Executive would have one year from the date of death to, but not beyond the original option expiration date, 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, 2018.

| Pay Ratio Summary   |
|---|
| <ul style="list-style-type: none"> <li>• For 2018, the annual total compensation of our selected median employee was \$48,800.</li> </ul>   |
| <ul style="list-style-type: none"> <li>• The 2018 annual total compensation of our CEO, as reported in the Summary Compensation Table on Page 52, was \$2,836,960.</li> </ul>                                 |
| <ul style="list-style-type: none"> <li>• Based on this information, for 2018 we reasonably estimate that the ratio of the annual total compensation of our CEO to our median employee was 58 to 1.</li> </ul> |
| <ul style="list-style-type: none"> <li>• 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.</li> </ul>     |

For 2018, the median employee that was used for purposes of calculating the 2018 ratio of the annual total compensation of our CEO to the median of the annual total compensation of all employees is the same employee that was identified for purposes of our 2017 disclosure. There has been no change in our employee population or employee compensation arrangements since that median employee was identified for 2017 that we believe would significantly impact our pay ratio disclosure. As of December 31, 2017, to identify the median employee from our employee population at that time, 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.

For the 2018 pay ratio, once we identified our median employee, we combined all of the elements of such employee’s compensation for 2018 consistent with the requirements of Item 402(c)(2)(x) of Regulation S-K. With respect to the annual total compensation of our CEO, the same process and amount reported in the “Total” column of our 2018 Summary Compensation Table included in this Proxy Statement on Page 52 was used.

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 THREE

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 2019 Annual Meeting to approve the compensation of Fulton’s named executive officers for 2018 as described in the Compensation Discussion and Analysis, and 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 2018 Annual Meeting, Fulton presented a similar proposal to its shareholders, and approximately 98% 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, is required to be presented to shareholders 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 34, 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 2018, 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 2018.

**RELATIONSHIP WITH INDEPENDENT PUBLIC ACCOUNTANTS**

For the years ended December 31, 2018 and December 31, 2017, 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, 2018 and 2017 are summarized in the following table:

| <b>Services and Fees</b>                                     | <b>2018</b>         | <b>2017</b>        |
|--|---------------------|--------------------|
| Audit Fees – Annual Audit and Quarterly Reviews <sup>1</sup> | \$ 2,049,000        | \$2,066,000        |
| Audit Fees – Issuance of Comfort Letters and Consents        | –                   | 344,000            |
| Audit Fees – Statutory Audit                                 | 53,000              | 50,000             |
| <b>Audit Fees Subtotal</b>                                   | <b>2,102,000</b>    | <b>2,460,000</b>   |
| Audit Related Fees <sup>2</sup>                              | –                   | 137,000            |
| Tax Fees <sup>3</sup>  | 66,000              | 71,000             |
| All Other Fees   | –                   | –                  |
| <b>TOTAL</b>   | <b>\$ 2,168,000</b> | <b>\$2,668,000</b> |

<sup>1</sup> Amounts presented for 2018 are based upon the audit engagement letter and additional fees paid. Final billings for 2018 may differ.

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

<sup>3</sup> Fees paid for tax services relating to federal and state tax matters.

The appointment of KPMG for the fiscal year ended December 31, 2019 was approved by the Audit Committee of the Board of Directors of Fulton at a meeting on February 21, 2019. Representatives of KPMG are expected to be present at the 2019 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 2018 and 2017, 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 2018 and 2017 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 2018 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 B.

## RATIFICATION OF INDEPENDENT AUDITOR – PROPOSAL FOUR

Fulton's Audit Committee has selected the firm of KPMG to continue as Fulton's independent auditor for the fiscal year ending December 31, 2019. 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 it 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, 2019.

If Fulton's shareholders do not approve this proposal at the 2019 Annual Meeting, the Audit Committee will consider the results of the shareholder vote on this proposal when selecting an independent auditor for 2020. 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 2019 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, 2018. 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, 2019.**

**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, 2018, 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, 2018 and this Proxy Statement are posted and available on Fulton’s website at [www.fult.com](http://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](http://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](http://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](http://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 2019 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 2, 2019

**EXHIBIT A**

**FULTON FINANCIAL CORPORATION  
AMENDED AND RESTATED  
DIRECTORS' EQUITY PARTICIPATION PLAN**

**TABLE OF CONTENTS**

|  |           |
|--|-----------|
| <b>ARTICLE I. GENERAL PROVISIONS</b> .....                               | <b>71</b> |
| 1.1 - PURPOSES .....   | 71        |
| 1.2 - DEFINITIONS .....  | 71        |
| 1.3 - ADMINISTRATION .....   | 74        |
| 1.4 - TYPES OF GRANTS UNDER THE PLAN .....                               | 74        |
| 1.5 - SHARES SUBJECT TO THE PLAN AND INDIVIDUAL AWARD LIMITATION .....   | 74        |
| 1.6 - ELIGIBILITY AND PARTICIPATION .....                                | 74        |
| <b>ARTICLE II. STOCK AWARDS</b> .....                                    | <b>75</b> |
| 2.1 - AWARD OF STOCK AWARDS .....  | 75        |
| 2.2 - STOCK AWARD AGREEMENTS .....                                       | 75        |
| 2.3 - AWARDS AND CERTIFICATES .....                                      | 75        |
| 2.4 - DIRECTORS FEES PAID IN THE FORM OF STOCK AWARDS .....              | 75        |
| <b>ARTICLE III. STOCK OPTIONS</b> .....                                  | <b>75</b> |
| 3.1 - GRANT OF STOCK OPTIONS .....                                       | 75        |
| 3.2 - OPTION DOCUMENTATION .....   | 75        |
| 3.3 - EXERCISE PRICE; OPTION REPRICING PROHIBITIONS .....                | 75        |
| 3.4 - EXERCISE OF STOCK OPTIONS .....                                    | 76        |
| 3.5 - METHOD OF EXERCISE .....   | 77        |
| <b>ARTICLE IV. RESTRICTED STOCK AND RSU AWARDS</b> .....                 | <b>77</b> |
| 4.1 - RESTRICTED STOCK AND RSU AWARDS .....                              | 77        |
| 4.2 - RESTRICTED STOCK AND RSU AWARD AGREEMENTS .....                    | 77        |
| 4.3 - AWARDS AND CERTIFICATES .....                                      | 77        |
| 4.4 - RESTRICTION PERIOD .....   | 77        |
| 4.5 - OTHER TERMS AND CONDITIONS OF RESTRICTED STOCK OR RSU AWARDS ..... | 78        |
| 4.6 - TERMINATION OF BOARD SERVICE .....                                 | 78        |
| 4.7 - CHANGE IN CONTROL PROVISIONS .....                                 | 78        |
| <b>ARTICLE V. TAX WITHHOLDING</b> .....                                  | <b>78</b> |
| 5.1 - TAX WITHHOLDING .....  | 78        |
| 5.2 - ELECTIVE DEFERRAL OF PAYMENT .....                                 | 78        |
| <b>ARTICLE VI. OTHER PROVISIONS</b> .....                                | <b>79</b> |
| 6.1 - ADJUSTMENT IN NUMBER OF SHARES AND OPTION PRICES .....             | 79        |
| 6.2 - NO RIGHT TO CONTINUED BOARD SERVICE .....                          | 79        |
| 6.3 - NONTRANSFERABILITY .....   | 79        |
| 6.4 - COMPLIANCE WITH GOVERNMENT REGULATIONS .....                       | 79        |
| 6.5 - RIGHTS AS A SHAREHOLDER .....                                      | 80        |
| 6.6 - UNFUNDED PLAN .....  | 80        |
| 6.7 - FOREIGN JURISDICTION .....   | 80        |
| 6.8 - OTHER COMPENSATION PLANS .....                                     | 80        |
| 6.9 - TERMINATION OF BOARD SERVICE--CERTAIN FORFEITURES; CLAW-BACK ..... | 80        |
| <b>ARTICLE VII. AMENDMENT AND TERMINATION</b> .....                      | <b>81</b> |
| 7.1 - AMENDMENT AND TERMINATION .....                                    | 81        |
| <b>ARTICLE VIII. EFFECTIVE DATE AND DURATION OF PLAN</b> .....           | <b>81</b> |
| 8.1 - EFFECTIVE DATE AND DURATION OF PLAN .....                          | 81        |

[This Page Intentionally Left Blank]



FULTON FINANCIAL CORPORATION  
AMENDED AND RESTATED  
DIRECTORS' EQUITY PARTICIPATION PLAN

ARTICLE I.  
GENERAL PROVISIONS

1.1 - PURPOSES

The purposes of the Amended and Restated Directors' Equity Participation Plan (the "**Plan**") are to advance the long term-success of Fulton Financial Corporation (the "**Company**" or "**Fulton**") and its subsidiaries and to increase shareholder value by providing long-term stock-based compensation to non-employee members of the Board of Directors of the Company, of the boards of directors of the Company's subsidiaries and of any advisory boards established by the Company or any of its subsidiaries.

The Plan amends and restates the Company's 2011 Directors' Equity Participation Plan that was previously approved by Fulton's shareholders at the 2011 Annual Meeting. All outstanding awards granted under the Plan prior to its amendment and restatement shall remain subject to the terms of the Plan; provided, that no Awards granted or awarded prior to the effectiveness of this Amended and Restated Plan that are materially adversely affected by any provision of this amended and restated Plan shall be subject to such provision without the prior consent of the applicable Participant.

The Plan is designed to: (1) encourage Company stock ownership by Participants (defined below) to further align their interests with the interests of shareholders of the Company; (2) ensure that the Company's Non-Employee Director (defined below) compensation practices are competitive in the banking and financial services industry; and (3) assist in the attraction and retention of Non-Employee Directors including Non-Employee Directors who contribute to further the Company's goal of achieving diversity on the Company's Board through differences of viewpoints, professional background, business experience, community service, education and skills, as well as race, gender and national origin.

As stated in the Company's Corporate Governance Guidelines (as amended from time to time, the "**Governance Guidelines**"), the Board of Directors of the Company believes that directors of the Company should be shareholders and have a financial interest in the Company to more closely align the interests of directors with those of shareholders. Thus, in the Governance Guidelines, the Board has adopted stock ownership guidelines (as amended from time to time, the "**Ownership Guidelines**") that require the directors to acquire and continue to own a minimum amount of the Company's Common Stock.

In addition to open market purchases, the Company recognizes that, in some cases, the attraction and retention of Non-Employee Directors may require additional methods under which Non-Employee Directors may achieve compliance with the Ownership Guidelines. Thus, for example, the Company may elect to require Non-Employee Directors who have yet to achieve compliance with the Ownership Guidelines to accept a portion of their directors' fees in the form of Stock Awards granted under the Plan.

1.2 - DEFINITIONS

For the purpose of the Plan, the following terms shall have the meanings indicated:

- (a) "**Affiliate**" shall mean a parent or subsidiary corporation as defined in Section 424 of the Code (substituting "Company" for "employer corporation"), including a parent or subsidiary which becomes such after the adoption of the Plan.
- (b) "**Award**" means any compensatory grant made under the terms of the Plan of a type listed under Section 1.4.
- (c) "**Board**" means the Board of Directors of the Company.

(d) “**Change in Control**” of the Company shall be deemed to have occurred when:

- (i) during any period of not more than thirty-six (36) months, individuals who constitute the Board as of the beginning of the period (the “**Incumbent Directors**”) cease for any reason to constitute at least a majority of the Board, provided that (1) any person becoming a director subsequent to the beginning of the period, whose nomination for election or appointment was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by a specific vote or by approval of the Company’s proxy statement in which such person is named as a nominee for director, without written objection to such nomination) shall be an Incumbent Director; and (2) no individual initially nominated or appointed as a result of an actual or publicly threatened election contest or pursuant to a negotiated agreement with respect to directors or as a result of any other actual or publicly threatened solicitation of proxies by or on behalf of any person other than the Board shall be deemed to be an Incumbent Director;
- (ii) the acquisition by any person (as such term is defined in Section 3(a)(9) of the Securities Exchange Act of 1934, as amended from time to time, or any successor thereto, and the applicable rules and regulations thereunder (the “**Exchange Act**”) and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act) of beneficial ownership (as such term is defined in Rule 13d-3 under the Exchange Act), of the Company’s capital stock entitled to thirty percent (30%) or more of the outstanding voting power of all capital stock of the Company eligible to vote for the election of the Board (“**Voting Securities**”); provided, however, that the event described in this paragraph (b) will not be deemed to be a Change in Control by virtue of the ownership, or acquisition, of Voting Securities: (1) by the Company or an Affiliate, including purchases pursuant to a stock repurchase plan, (2) by any employee benefit plan (or related trust) sponsored or maintained by the Company or an Affiliate, (3) by any underwriter temporarily holding securities pursuant to an offering of such securities, or (4) pursuant to a Non-Qualifying Transaction (as defined in paragraph (iii) of this definition);
- (iii) the consummation of a merger, consolidation, division, statutory share exchange, or any other transaction or a series of transactions outside the ordinary course of business involving the Company (a “**Business Combination**”), unless immediately following such Business Combination: (1) more than fifty percent (50%) of the total voting power of (x) the entity resulting from such Business Combination, or (y) if applicable, the ultimate parent corporation that directly or indirectly has beneficial ownership of at least ninety-five percent (95%) of the voting power of such resulting entity (either, as applicable, the “**Surviving Entity**”), is represented by Voting Securities that were outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which such Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of such Voting Securities among the holders thereof immediately prior to the Business Combination, (2) no person (other than any employee benefit plan (or related trust) sponsored or maintained by the Surviving Entity), is or becomes the beneficial owner, directly or indirectly, of thirty percent (30%) or more of the total voting power of the outstanding voting securities eligible to elect directors of the Surviving Entity and (3) at least a majority of the members of the board of directors of the Surviving Entity following the consummation of the Business Combination were Incumbent Directors at the time of the Board’s approval of the execution of the initial agreement providing for such Business Combination (any Business Combination which satisfies all of the criteria specified in (1), (2) and (3) of this paragraph (iii) will be deemed to be a “**Non-Qualifying Transaction**”);
- (iv) the consummation of a sale of all or substantially all of the assets of the Company (other than to a wholly owned subsidiary of the Company); or
- (v) the Company’s shareholders approve a plan of complete liquidation or dissolution of the Company.

Actions taken by the Company to merge, consolidate, liquidate or otherwise reorganize one or more of its subsidiaries or affiliates shall not constitute a Change in Control for purposes of this Agreement.

- (e) “**Code**” means the Internal Revenue Code of 1986, as amended, including any successor law thereto.
- (f) “**Committee**” means the Human Resources Committee of the Board (or any successor committee thereof) or the full Board, as the case may be.
- (g) “**Common Stock**” means the Common Stock of the Company, par value \$2.50 per share.
- (h) “**Company**,” means Fulton Financial Corporation. For purposes of this Plan, the terms “**Company**” and “**Fulton**” shall include any successor to Fulton Financial Corporation.
- (i) “**Disability**” means total and permanent disability within the meaning of Section 22(e)(3) of the Code.
- (j) “**Dividend Equivalent**” means, with respect to a share of a Restricted Stock Award or shares of Common Stock underlying RSUs, an amount equal to the cash dividend paid on one share of Common Stock during the Restriction Period applicable to the Restricted Stock or RSU Award. All Dividend Equivalents shall be reinvested in the Restricted Stock or RSU Award, as applicable, at a purchase price equal to the Fair Market Value on the dividend date.
- (k) “**Fair Market Value**” means as of any date the last reported sales price of the Common Stock on such date as reported by the principal national securities exchange on which such stock is listed and traded or, if there is no trading on such date, on the first previous date on which there is such trading.
- (l) “**Governance Guidelines**” shall have the meaning given to that term in Section 1.1.
- (m) “**Non-Employee Director**” means a member of the Board, a member of the board of directors of a Company subsidiary or a member of any advisory board established by the Company or any Company subsidiary, who, in any such case, is not a common-law employee of the Company or a Company subsidiary.
- (n) “**Ownership Guidelines**” shall have the meaning given to that term in Section 1.1.
- (o) “**Participant**” means an individual who has met the eligibility requirements set forth in Section 1.6 hereof and to whom a grant of an Award has been made and is outstanding under the Plan.
- (p) “**Plan**” means this Amended and Restated 2011 Directors’ Equity Participation Plan.
- (q) “**Repricing**” shall have the meaning given to that term in Section 3.3(b).
- (r) “**Restricted Stock Award**” means an Award of Common Stock granted to a Participant pursuant to Article IV that is subject to a Restriction Period.
- (s) “**Restricted Stock Units**” or “**RSU**” means an Award of units to acquire one share of Common Stock per unit, granted to a Participant pursuant to Article IV that is subject to a Restriction Period.
- (t) “**Restriction Period**” means, (i) in relation to Stock Options, the period of time (if any) prior to which such Stock Options may not be exercised and (ii) in relation to Restricted Stock or RSU Awards, the period of time (if any) during which (1) such shares are subject to forfeiture pursuant to the Plan and (2) such shares may not be sold, assigned, transferred, pledged or otherwise disposed of by the Participant.
- (u) “**Retirement**” means termination from service as a Non-Employee Director with the Company, a Company subsidiary or as a member of any advisory board established by the Company or any Company subsidiary, as applicable (i) after the Participant has completed a minimum number of years of service (as established by the Committee from time to time) on the Board, a Company subsidiary board of directors or a Company or Company subsidiary advisory board, or (ii) because the Participant has reached a mandatory board retirement age (if any) implemented for the Company, a Company subsidiary board or a Company or Company subsidiary advisory board. Notwithstanding anything in the Plan to the contrary, if the Committee has not established a minimum number of years for service, then the minimum Non-Employee Director service requirement shall be one year of service measured from when the Participant first joined the Board.
- (v) “**Stock Award**” means an award of Common Stock granted to a Participant pursuant to Article II that is not subject to a Restriction Period.

- (w) “**Stock Option**” means a right granted to a Participant pursuant to Article III to purchase, before a specified date and at a specified price, a specified number of shares of Common Stock.
- (x) “**Vest**” or “**Vesting**” means, (i) in relation to Stock Options, that the Restriction Period relating to such Stock Options has expired and that such Stock Options may be exercised (subject to any other applicable terms and conditions) and (ii) in relation to Restricted Stock or RSU Award, that the Restriction Period relating to such Restricted Stock or RSU Award has expired and that such Restricted Stock Award or shares of Common Stock underlying a Restricted Stock Units Award is earned and eligible to be paid to the Participant (subject to any other applicable terms and conditions).

### 1.3 - ADMINISTRATION

The Plan shall be administered by the Committee; provided, however, that the full Board shall administer the Plan as it relates to the terms, conditions and grant of Awards to Non-Employee Directors who serve on the Committee. Accordingly, for purposes of the Plan, the term Committee shall refer to the full Board for purposes of Awards granted to specific Committee members, and otherwise shall refer to the Human Resources Committee of the Board. Subject to the provisions of the Plan and to directions by the Board, the Committee is authorized to interpret the Plan, to adopt administrative rules, regulations, and guidelines for the Plan, and to impose such terms, conditions, and restrictions on Awards as it deems appropriate.

### 1.4 - TYPES OF GRANTS UNDER THE PLAN

Awards under the Plan may be in the form of any one or more of the following:

- (a) Stock Awards;
- (b) Stock Options;
- (c) Restricted Stock Awards; and
- (d) Restricted Stock Unit Awards

### 1.5 - SHARES SUBJECT TO THE PLAN AND INDIVIDUAL AWARD LIMITATION

- (a) A maximum of 500,000 shares of Common Stock may be issued under the Plan. All such shares may be granted in the form of any Awards authorized for issuance under Section 1.4. As of March 1, 2019, Awards for 188,331 Shares have been issued under the Plan and the number of Shares available for future Awards under this Plan is 311,669 Shares. During the term of each Award, the Company shall keep reserved at all times the number of shares of Common Stock required to satisfy all such Awards. The total number of shares authorized is subject to adjustment as provided in Section 6.1 hereof. Shares of Common Stock issued under the Plan may be treasury shares or authorized but unissued shares. In the discretion of the Committee, fractional shares may be issued under the Plan or Awards may be rounded up to next whole share of Common Stock.
- (b) If any Award granted under the Plan expires, terminates, is forfeited, is not exercised, or for any other reason is not payable under the Plan, shares of Common Stock subject to the Award may again be made available for the purposes of the Plan.
- (c) The maximum number of shares of Common Stock, in the aggregate, under all types of Awards granted to any one Participant in any one calendar year shall not exceed the greater of (i) 20,000 shares or (ii) a number of shares with an aggregate Fair Market Value on the date of the Award(s) of \$200,000.

### 1.6 - ELIGIBILITY AND PARTICIPATION

Participation in the Plan shall be limited to Non-Employee Directors.

## **ARTICLE II. STOCK AWARDS**

### **2.1 - AWARD OF STOCK AWARDS**

The Committee may grant unrestricted Stock Awards to Participants subject to such terms and conditions as the Committee shall determine.

### **2.2 - STOCK AWARD AGREEMENTS**

Stock Awards subject to any terms and conditions shall be evidenced by a written agreement between the Company and the Participant to whom such Award is granted. The agreement shall specify the number of shares awarded and the terms and conditions of the Award.

### **2.3 - AWARDS AND CERTIFICATES**

Shares of Common Stock awarded pursuant to a Stock Award shall be registered in the name of the Participant, and evidenced either by the issuance of certificates or by book entry on the stock transfer records of the Company showing the applicable restrictions, if any.

### **2.4 - DIRECTORS FEES PAID IN THE FORM OF STOCK AWARDS**

A Participant may elect to receive all or a portion of fees payable to such Participant for service as a Non-Employee Director in the form of a Stock Award grant pursuant to a process approved by the Board or the Committee; provided, however, that the annual limitation set forth in Section 1.5(c) shall apply. The number of shares to be issued will be determined using the Fair Market Value of the date of issuance of the Stock Award.

## **ARTICLE III. STOCK OPTIONS**

### **3.1 - GRANT OF STOCK OPTIONS**

The Committee may from time to time, subject to the provisions of the Plan, grant Stock Options to Participants. The Committee shall determine the number of shares of Common Stock to be covered by each Stock Option.

### **3.2 - OPTION DOCUMENTATION**

Each Stock Option shall be evidenced by a written Stock Option agreement between the Company and the Participant to whom such option is granted, specifying the number of shares of Common Stock that may be acquired by its exercise and containing such terms, the option period and other conditions consistent with the Plan as the Committee shall determine.

### **3.3 - EXERCISE PRICE; OPTION REPRICING PROHIBITIONS**

- (a) The price at which each share covered by a Stock Option may be acquired shall be determined by the Committee at the time the option is granted and shall not be less than the Fair Market Value of the underlying shares of Common Stock on the day the Stock Option is granted.
- (b) Other than a change in the exercise price made in accordance with the provisions of Section 6.1 of the Plan, notwithstanding anything in the Plan to the contrary, neither the Board nor the Committee shall have the authority, without shareholder approval, (a) to accept the surrender of any outstanding Stock Option when the Fair Market Value of a share of Common Stock is less than the exercise price of such outstanding Stock Option and grant new Stock Options or other Awards in substitution for such surrendered Stock Option or pay cash in connection with such surrender, (b) to reduce the exercise price of any outstanding Stock Option, or (c) to take any other action that would be treated as a repricing of Stock Options under the rules of the primary stock exchange on which the Common Stock is listed.

### 3.4 - EXERCISE OF STOCK OPTIONS

- (a) Exercisability. Stock Options shall become exercisable at such times, in such installments, and upon the satisfaction of such conditions as the Committee may provide at the time of grant in the Stock Option agreement referred to in Section 3.2, which may include a Restriction Period prior to Vesting.
- (b) Option Period. For each Stock Option granted, the Committee shall specify in the Stock Option agreement referred to in Section 3.2 the period during which the Stock Option may be exercised, provided that no Stock Option shall be exercisable after the expiration of ten years from the date the Stock Option was granted.
- (c) Exercise in the Event of Termination of Board Service.
  - (i) Death: Unless otherwise provided by the Committee at the time of grant, in the event of the death of the Participant while actively serving on the Board, the Stock Option must be exercised by the Participant's estate or beneficiaries within one year following the death of the Participant and prior to its expiration. In the event of the death of the Participant, each unexpired Stock Option held by the Participant at the date of death may be exercised as to all or any portion thereof regardless of whether or not fully exercisable under the terms of the grant.
  - (ii) Disability: Unless otherwise provided by the Committee at the time of grant, in the event of the termination of the Participant's board service due to Disability, the Stock Option must be exercised within one year following the Participant's termination of board service and prior to its expiration. In the event of the termination of the Participant's board service due to Disability, each Stock Option then held by the disabled Participant may be exercised as to all or any portion thereof, regardless of whether or not fully exercisable under the terms of the grant.
  - (iii) Retirement: Unless otherwise provided by the Committee at the time of grant, in the event of the Retirement of the Participant, Vested Stock Option must be exercised within one year following the Participant's Retirement and prior to its expiration. In the event of the Retirement of the Participant, only Vested Stock Option then held by the retired Participant may be exercised as to all or any portion thereof, regardless of whether or not fully exercisable under the terms of the grant.
  - (iv) Other Terminations: Unless otherwise provided by the Committee at the time of grant, in the event a Participant ceases to serve on the Board for any reason other than death, Disability or Retirement, Stock Options which are exercisable on the date of termination must be exercised within six months after termination and prior to the expiration date of any such Stock Option. All Stock Options which are not then exercisable shall be canceled.
  - (v) Extension of Exercise Period: Notwithstanding all other provisions under this Section 2.4(c), in the event a Participant's Board service terminates, the Committee may, in its sole discretion, extend the post-termination period during which the Stock Option may be exercised, provided however that such period may not extend beyond the original option period.
- (d) Exercise In the Event of Change in Control. In the event of consummation of a Change in Control, all Stock Options shall immediately become exercisable without regard to the exercise period set forth in Section 3.4(a) or in a Stock Option agreement. In the event such Stock Options are not exercised in connection with the Change in Control and are underwater, such Stock Options shall be terminated without payment of consideration.

### **3.5 - METHOD OF EXERCISE**

The Stock Option may be exercised in whole or in part from time to time by written request delivered to the Corporate Secretary or another designated officer of the Company. The option price of each share acquired pursuant to a Stock Option shall be paid in full at the time of each exercise of the Stock Option through a method outlined in the Stock Option agreement, or one of the following methods: (i) in cash; (ii) by delivering to the Company previously-owned shares of Common Stock with a Fair Market Value as of the date determined by the Committee sufficient to pay the exercise price; (iii) in the discretion of the Committee, by delivering to the Corporate Secretary or another designated officer of the Company a notice of exercise with an irrevocable direction to a broker-dealer registered under the Exchange Act to sell a sufficient portion of the shares acquired upon exercise and deliver the sale proceeds directly to the Company to pay the exercise price; or (iv) in the discretion of the Committee, through any combination of the payment procedures set forth in (i) through (iii) above.

## **ARTICLE IV. RESTRICTED STOCK AND RSU AWARDS**

### **4.1 - RESTRICTED STOCK AND RSU AWARDS**

The Committee may grant Restricted Stock or RSU Awards to Participants subject to such terms and conditions as the Committee shall determine, as set forth in the Restricted Stock or RSU Award agreement referenced in Section 4.2, provided that each Restricted Stock or RSU Award shall be subject to a Restriction Period prior to Vesting.

### **4.2 - RESTRICTED STOCK AND RSU AWARD AGREEMENTS**

Each Restricted Stock or RSU Award shall be evidenced by a written agreement between the Company and the Participant to whom such Award is granted. The agreement shall specify the number of shares or units awarded, and the terms and conditions of the Award including the Restriction Period.

### **4.3 - AWARDS AND CERTIFICATES**

Shares of Common Stock awarded pursuant to a Restricted Stock Award shall be registered in the name of the Participant, and evidenced either by the issuance of certificates or by book entry on the stock transfer records of the Company showing the applicable restrictions, if any. Certificates evidencing Restricted Stock Awards, bearing appropriate restrictive legends, shall be held in custody by the Company until the restrictions thereon are no longer in effect. After the lapse or waiver of the restrictions imposed upon the Restricted Stock Award, the Company shall deliver in the Participant's name one or more stock certificates, free of restrictions, evidencing the shares of Common Stock subject to the Restricted Stock Award with respect to which the restrictions have lapsed or been waived, or shall reregister the shares of Common Stock on the stock transfer records of the Company free of the applicable restrictions.

Restricted Stock Units awarded shall be evidenced by the RSU Award agreement until the applicable Restriction Period ends. After the lapse or waiver of the restrictions imposed upon the RSU Award, the Company shall deliver in the Participant's name one or more stock certificates, free of restrictions, evidencing the shares of Common Stock underlying the RSU Award with respect to which the restrictions have lapsed or been waived, or shall reregister the shares of Common Stock on the stock transfer records of the Company free of the applicable restrictions; provided, however, if the Participant has properly elected to defer receipt of the underlying shares of Common Stock under a Board-approved deferred compensation plan or program, the provisions of such plan or program shall control with respect to payment of the RSU Award.

### **4.4 - RESTRICTION PERIOD**

At the time a Restricted Stock or RSU Award is made, the Committee shall establish a Restriction Period applicable to such Award and, upon expiration or lapse of a Restriction Period, the Restricted Stock or RSU Award shall Vest and the shares subject to the Restricted Stock Award shall become the unrestricted property of the Participant, or issuable under the RSU Award shall become Vested and eligible to be paid. The Committee may provide for the lapse of such restrictions in installments or all at one time and may accelerate or waive such restrictions, in whole or in part, based on service and such other factors as the Committee may determine.

**4.5 - OTHER TERMS AND CONDITIONS OF RESTRICTED STOCK OR RSU AWARDS**

Shares of Common Stock subject to Restricted Stock Awards or underlying RSU Awards shall be subject to the following terms and conditions:

- (a) Except as otherwise provided in the Plan or in the RSU Award agreement, the Participant shall not have all the rights of a shareholder of the Company, including the right to vote the shares;
- (b) Cash dividends paid with respect to Common Stock subject to a Restricted Stock or RSU Award shall entitle a Participant to Dividend Equivalents that are reinvested to purchase additional shares of Common Stock subject to the same terms, conditions, and restrictions that apply to the Restricted Stock or RSU Award with respect to which such Dividend Equivalents were credited;
- (c) Any other terms and conditions as the Committee may elect to include in the Award agreement as described in Section 4.2.

**4.6 - TERMINATION OF BOARD SERVICE**

- (a) In the event a Participant's Board service terminates during the Restriction Period by reason of death or Disability, all restrictions shall lapse on the full number of shares or units subject to restriction.
- (b) In the event a Participant's Board service terminates during the Restriction Period by reason of Retirement, all restrictions shall lapse on a prorated number of shares or units subject to restriction based on the time from date of the Award to the Participant's Retirement date.
- (c) If a Participant's Board service is terminated during the Restriction Period for any reason other than one listed in (a) or (b) above, the Participant shall forfeit all shares or units subject to restriction.

**4.7 - CHANGE IN CONTROL PROVISIONS**

In the event of any Change in Control, all restrictions applicable to any outstanding Restricted Stock or RSU Awards shall lapse, and all outstanding Restricted Stock or RSU Awards shall Vest, as of the date of such Change in Control.

**ARTICLE V.  
TAX WITHHOLDING**

**5.1 - TAX WITHHOLDING**

As a non-employee Director, each Participants will be providing services to the Company as a self-employed individual and will be individually responsible for his or her own tax payments and deposits relating to income attributable to Awards made hereunder. In addition, any Participant receiving an award under the Plan that qualifies as restricted property taxable under Code Section 83(a) may make an election under Section 83 of the Code if desired. The Company provides no advice with respect to such election.

**5.2 - ELECTIVE DEFERRAL OF PAYMENT**

The Board has approved a deferred compensation program for Directors. Such program, if properly followed, represents the sole method of deferring payment of Vested Awards granted under this Plan. Notwithstanding the foregoing, neither the Company nor the Committee shall have any obligation to take any action to prevent the assessment of any excise tax or penalty on any Participant under Section 409A of the Code and neither the Company nor the Committee will have any liability to any Participant for such tax or penalty.



**ARTICLE VI.  
OTHER PROVISIONS**

**6.1 - ADJUSTMENT IN NUMBER OF SHARES AND OPTION PRICES**

In the event of any change in the Common Stock through merger, consolidation, reorganization, recapitalization, reincorporation, stock split, stock dividend or other change in the corporate structure of the Company, the Committee shall appropriately adjust the maximum number of Shares subject to the Plan, all Awards then currently outstanding, the maximum number of Shares with respect to which any one person may be granted Awards during any period as set forth in Section 1.5(c) of the Plan, and the exercise price of Options, so that upon Exercise, the Participant shall receive, in effect, the same number of Shares in exchange for the same aggregate exercise price he or she would have received had he or she been the holder of all Shares subject to his or her outstanding Options immediately before the effective date of such change in the capital structure of the Company, and the benefits, rights and features relating to Shares underlying Restricted Awards shall be appropriately adjusted consistent with such change in such manner as the Committee may deem equitable to prevent substantial dilution or enlargement of the rights granted to, or available for, Participants in the Plan. Any such adjustment shall not result in the issuance of fractional shares, and the Committee shall round down the number of shares subject to any outstanding Award unless the transaction that resulted in the capital structure change specifically authorizes a rounding up of the shares. Each such adjustment shall be made in such manner so as not to constitute a “modification” within the meaning of Section 409A of the Code. Further, any adjustments made under this Section 6.1 shall be made in a manner which does not adversely affect the exemption provided pursuant to Rule 16b-3 under the Exchange Act.

**6.2 - NO RIGHT TO CONTINUED BOARD SERVICE**

Nothing contained in the Plan, nor in any grant of an Award pursuant to the Plan, shall confer upon any Participant any right with respect to continuance of board service with the Company or its subsidiaries, nor interfere in any way with the rights of the Company, its subsidiaries or its shareholders, pursuant to applicable articles, by-laws, state law or otherwise, to terminate the Participant’s Board service or change the Non-Employee Director compensation of any Participant at any time.

**6.3 - NONTRANSFERABILITY**

A Participant’s rights under the Plan, including the right to any shares or amounts payable may not be assigned, pledged, or otherwise transferred except, in the event of a Participant’s death, to the Participant’s designated beneficiary or, in the absence of such a designation, by will or by the laws of descent and distribution; provided, however, that the Committee may, in its discretion, at the time of grant of a Stock Option or by amendment of an option agreement for a Stock Option, provide that Stock Options granted to or held by a Participant may be transferred, in whole or in part, to one or more transferees and exercised by any such transferee, provided further that (a) any such transfer must be without consideration, (b) each transferee must be a member of such Participant’s “immediate family” or a trust, family limited partnership or other estate planning vehicle established for the exclusive benefit of one or more members of the Participant’s immediate family; and (c) such transfer is specifically approved by the Committee following the receipt of a written request for approval of the transfer. In the event a Stock Option is transferred as contemplated in this Section, such transfer shall become effective when approved by the Committee and such Stock Option may not be subsequently transferred by the transferee other than by will or the laws of descent and distribution. Any transferred Stock Option shall continue to be governed by and subject to the terms and conditions of this Plan and the relevant option agreement, and the transferee shall be entitled to the same rights as the Participant as if no transfer had taken place. As used in this Section, “immediate family” shall mean, with respect to any person, any spouse, child, stepchild or grandchild, and shall include relationships arising from legal adoption.

**6.4 - COMPLIANCE WITH GOVERNMENT REGULATIONS**

- (a) The Company shall not be required to issue or deliver shares or make payment upon any right granted under the Plan prior to complying with the requirements of any governmental authority in connection with the authorization, issuance, or sale of such shares.
- (b) The Plan shall be construed and its provisions enforced and administered in accordance with the laws of the Commonwealth of Pennsylvania applicable to contracts entered into and performed entirely in such State.

- (c) Awards under the Plan are intended to comply with, or be exempt from, the applicable requirements of Section 409A of the Code and shall be limited, construed and interpreted in accordance with such intent. Although the Company does not guarantee any particular tax treatment, to the extent that any Award is subject to Section 409A of the Code, it shall be paid in a manner that is intended to comply with Section 409A of the Code, including regulations and any other guidance issued by the Secretary of the Treasury and the Internal Revenue Service with respect thereto. In no event whatsoever shall the Company be liable for any additional tax, interest or penalties that may be imposed on the Participant by Section 409A of the Code or any damages for failing to comply with Section 409A of the Code.

#### **6.5 - RIGHTS AS A SHAREHOLDER**

The recipient of any grant under the Plan shall have no rights as a shareholder with respect thereto unless and until certificates for shares of Common Stock are issued, or book entry on the stock transfer records of the Company have been made, in the name of such recipient and are no longer subject to restriction.

#### **6.6 - UNFUNDED PLAN**

Unless otherwise determined by the Committee, the Plan shall be unfunded and shall not create (or be construed to create) a trust or separate funds. With respect to any payment not yet made to a Participant, nothing contained herein shall give any Participant any rights that are greater than those of a general creditor of the Company.

#### **6.7 - FOREIGN JURISDICTION**

The Committee shall have the authority to adopt, amend, or terminate such arrangements, not inconsistent with the intent of the Plan, as it may deem necessary or desirable to make available tax or other benefits of the laws of foreign countries in order to promote achievement of the purposes of the Plan.

#### **6.8 - OTHER COMPENSATION PLANS**

Nothing contained in this Plan shall prevent the Company from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required.

#### **6.9 - TERMINATION OF BOARD SERVICE--CERTAIN FORFEITURES; CLAW-BACK**

Notwithstanding any other provision of the Plan (other than provisions regarding Change in Control, including without limitation Sections 3.4(d) and 4.7, which shall apply in all events), a Participant shall have no right to exercise any Stock Option or receive payment of any or Restricted Stock or RSU Award if the Participant is discharged from Board service for willful, deliberate, or gross misconduct as determined by the Committee in its sole discretion. Furthermore, in any such case and notwithstanding any other provision of the Plan to the contrary, in the event that a Participant received or is entitled to cash or the delivery or Vesting of Common Stock pursuant to an Award during the 12 month period prior to the Participant's discharge from Board service, the Committee, in its sole discretion, may require the Participant to return or forfeit the cash and/or Common Stock received with respect to an Award (or its economic value as of: (a) the date of the exercise of Stock Options; (b) the date immediately following the end of the Restriction Period for Restricted Stock or RSU Awards or (c) the date of grant or payment with respect to Stock Awards, as the case may be). The Committee's right to require forfeiture under this Section 6.9 must be exercised within 90 days after discharge from Board service.

In addition to the foregoing, the Company may subject this Plan and any Awards made hereunder to any "claw-back policy" adopted subsequent to the date of this Plan.

**ARTICLE VII.  
AMENDMENT AND TERMINATION**

**7.1 - AMENDMENT AND TERMINATION**

The Board of Directors or the Committee may modify, amend, or terminate the Plan at any time except that, to the extent then required by applicable law, rule, regulation, or applicable listing requirements for the Company's Common Stock, approval of the holders of a majority of shares of Common Stock represented in person or by proxy at a meeting of the shareholders will be required to increase the maximum number of shares of Common Stock available for distribution under the Plan (other than increases due to adjustments in accordance with the Plan) or to "materially amend" the Plan under applicable listing requirements for the Company's Common Stock. No modification, amendment, or termination of the Plan shall adversely affect the rights of a Participant under a grant previously made to such Participant without the consent of such Participant.

**ARTICLE VIII.  
EFFECTIVE DATE AND DURATION OF PLAN**

**8.1 - EFFECTIVE DATE AND DURATION OF PLAN**

The Plan shall become effective as of the date of the Plan's approval and adoption at the 2019 Annual Meeting of the shareholders on May 21, 2019. All Awards granted under the Plan must be granted within ten years from its approval date by the shareholders of the Company. Any Awards outstanding ten years after the adoption of the Plan may be exercised within the periods prescribed under or pursuant to the Plan.

[This Page Intentionally Left Blank]

EXHIBIT B

**REPORT OF AUDIT COMMITTEE**

**February 21, 2019**

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, 2018.

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, 2018.

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

[This Page Intentionally Left Blank]

**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, 2018,**

**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"/>                         |                          |

If an emerging growth company, indicate by checkmark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was approximately \$2.8 billion. The number of shares of the registrant's Common Stock outstanding on February 15, 2019 was 169,884,000.

Portions of the Definitive Proxy Statement of the Registrant for the Annual Meeting of Shareholders to be held on May 21, 2019 are incorporated by reference in Part III.

## TABLE OF CONTENTS

| <u>Description</u>   | <u>Page</u> |
|--|-------------|
| <b><u>PART I</u></b>   |             |
| Item 1. Business .....   | 3           |
| Item 1A. Risk Factors .....  | 19          |
| Item 1B. Unresolved Staff Comments .....   | 33          |
| Item 2. Properties .....   | 33          |
| Item 3. Legal Proceedings .....  | 33          |
| Item 4. Mine Safety Disclosures .....  | 33          |
| <b><u>PART II</u></b>  |             |
| Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities ..... | 34          |
| Item 6. Selected Financial Data .....  | 38          |
| Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations .....                        | 40          |
| Item 7A. Quantitative and Qualitative Disclosures About Market Risk .....  | 70          |
| Item 8. Financial Statements and Supplementary Data: .....   |             |
| Consolidated Balance Sheets .....  | 75          |
| Consolidated Statements of Income .....  | 76          |
| Consolidated Statements of Comprehensive Income .....  | 77          |
| Consolidated Statements of Shareholders’ Equity .....  | 78          |
| Consolidated Statements of Cash Flows .....  | 79          |
| Notes to Consolidated Financial Statements .....   | 80          |
| Management Report On Internal Control Over Financial Reporting .....   | 134         |
| Report of Independent Registered Public Accounting Firm .....  | 135         |
| Quarterly Consolidated Results of Operations (unaudited) .....   | 137         |
| Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure .....                         | 138         |
| Item 9A. Controls and Procedures .....   | 138         |
| Item 9B. Other Information .....   | 138         |
| <b><u>PART III</u></b>   |             |
| Item 10. Directors, Executive Officers and Corporate Governance .....  | 139         |
| Item 11. Executive Compensation .....  | 139         |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters .....              | 139         |
| Item 13. Certain Relationships and Related Transactions, and Director Independence .....                                   | 139         |
| Item 14. Principal Accounting Fees and Services .....  | 139         |
| <b><u>PART IV</u></b>  |             |
| Item 15. Exhibits, Financial Statement Schedules .....   | 140         |
| Item 16. Form 10-K Summary .....   | 142         |
| Signatures .....   | 142         |
| Exhibit Index .....  | 144         |



## PART I

### **Item 1. Business**

#### *General*

Fulton Financial 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 this Report, "the Corporation" refers to Fulton Financial Corporation and its subsidiaries that are consolidated for financial reporting purposes, except that when referring to Fulton Financial Corporation as a public company, as a bank holding company or as a financial holding company, or to the common stock or other securities issued by Fulton Financial Corporation, references to "the Corporation" refer just to Fulton Financial Corporation. References to "the Parent Company" refer just to Fulton Financial Corporation. 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 four community banks and eight non-bank entities. As of December 31, 2018, the Corporation had approximately 3,500 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](http://www.fult.com). Electronic copies of the Corporation's 2018 Annual Report on Form 10-K are available free of charge by visiting "Investor Relations" at [www.fult.com](http://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 four 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 begun the process of consolidating its bank subsidiaries, having consolidated two of its bank subsidiaries into its largest bank subsidiary, Fulton Bank, N.A., during 2018. 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 consolidate its brands and reduce the number of government agencies that regulate the Corporation's banking operations. The completion of this consolidation process depends, in part, on Fulton Financial Corporation and its bank subsidiary, Lafayette Ambassador Bank, demonstrating that certain deficiencies in the 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, and the corresponding requirements of the regulatory enforcement order issued to Fulton Financial Corporation and Lafayette Ambassador Bank by the Board of Governors of the Federal Reserve System, have been satisfactorily remediated. See Item 1A. "Risk Factors - Legal, Compliance and Reputational Risks - The Corporation has begun the process of consolidating its bank subsidiaries, which will result in significant implementation costs in 2019" and "Risk Factors - Legal, Compliance and Reputational Risks - Failure to comply with the BSA, the Patriot Act and related anti-money laundering requirements could subject the Corporation to enforcement actions, fines, penalties, sanctions and other 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 is 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 the Corporation. 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 - The composition of the Corporation's loan portfolio and competition 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 \$55.0 million as of December 31, 2018, which is significantly 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, 2018:

| Subsidiary                | Main Office Location | Total Assets | Total Deposits | Branches <sup>(1)</sup> |
|---------------------------|----------------------|--------------|----------------|-------------------------|
| (dollars in millions)     |                      |              |                |                         |
| Fulton Bank, N.A.         | Lancaster, PA        | \$ 12,563    | \$ 9,641       | 122                     |
| Fulton Bank of New Jersey | Mt. Laurel, NJ       | 4,182        | 3,585          | 61                      |
| The Columbia Bank         | Columbia, MD         | 2,540        | 1,899          | 31                      |
| Lafayette Ambassador Bank | Bethlehem, PA        | 1,579        | 1,339          | 20                      |
|                           |                      |              |                | 234                     |

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

#### *Non-Bank Subsidiaries*

Fulton Financial 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.

Fulton Financial 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, 2018:

| Subsidiary                                | State of Incorporation | Total Assets<br>(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 faces direct competition from other commercial banks, varying in size from local community banks to regional and national banks, credit unions and non-bank entities. As a result of the wide availability of electronic delivery channels, the Corporation also faces 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 faces increased competition from certain non-bank entities, such as financial technology companies and marketplace lenders, which in many cases are not 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

As of December 31, 2018, the Corporation's banking subsidiaries maintained 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, 2018). 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<br>(2019 Est.) | Banking Subsidiary        | No. of Financial<br>Institutions |                  | Deposit Market Share<br>(June 30, 2018) <sup>(1)</sup> |       |
|----------------------|-------|---------------------------|---------------------------|----------------------------------|------------------|--|-------|
|                      |       |                           |                           | Banks/<br>Thrifts                | Credit<br>Unions | Rank   | %     |
| Berks.....           | PA    | 420,000                   | Fulton Bank, N.A.         | 17                               | 17               | 7  | 3.8%  |
| Bucks.....           | PA    | 630,000                   | Fulton Bank, N.A.         | 34                               | 29               | 14   | 1.9%  |
| Centre.....          | PA    | 164,000                   | Fulton Bank, N.A.         | 16                               | 6                | 10   | 2.8%  |
| Chester.....         | PA    | 523,000                   | Fulton Bank, N.A.         | 28                               | 15               | 13   | 3.1%  |
| Columbia.....        | PA    | 66,000                    | Fulton Bank, N.A.         | 6                                | 4                | 5  | 4.0%  |
| Cumberland.....      | PA    | 151,000                   | Fulton Bank, N.A.         | 17                               | 11               | 10   | 2.1%  |
| Dauphin.....         | PA    | 278,000                   | Fulton Bank, N.A.         | 17                               | 13               | 6  | 5.3%  |
| Delaware.....        | PA    | 566,000                   | Fulton Bank, N.A.         | 26                               | 21               | 27   | 0.3%  |
| Lancaster.....       | PA    | 548,000                   | Fulton Bank, N.A.         | 22                               | 14               | 1  | 26.8% |
| Lebanon.....         | PA    | 141,000                   | Fulton Bank, N.A.         | 11                               | 6                | 1  | 31.2% |
| Lehigh.....          | PA    | 370,000                   | Lafayette Ambassador Bank | 21                               | 18               | 7  | 4.6%  |
| Lycoming.....        | PA    | 113,000                   | Fulton Bank, N.A.         | 12                               | 13               | 14   | 1.0%  |
| Montgomery.....      | PA    | 1,074,000                 | Fulton Bank, N.A.         | 38                               | 43               | 28   | 0.2%  |
| Montour.....         | PA    | 18,000                    | Fulton Bank, N.A.         | 6                                | 3                | 2  | 20.7% |
| Northampton.....     | PA    | 305,000                   | Lafayette Ambassador Bank | 18                               | 18               | 3  | 12.8% |
| Northumberland ...   | PA    | 91,000                    | Fulton Bank, N.A.         | 18                               | 4                | 7  | 6.2%  |
| Schuylkill.....      | PA    | 141,000                   | Fulton Bank, N.A.         | 13                               | 7                | 10   | 4.3%  |
| Snyder.....          | PA    | 41,000                    | Fulton Bank, N.A.         | 8                                | 1                | 2  | 25.8% |
| Union.....           | PA    | 44,000                    | Fulton Bank, N.A.         | 9                                | 5                | 4  | 8.1%  |
| York.....            | PA    | 449,000                   | Fulton Bank, N.A.         | 15                               | 18               | 3  | 11.7% |
| New Castle.....      | DE    | 564,000                   | Fulton Bank, N.A.         | 21                               | 31               | 12   | 1.2%  |
| Sussex.....          | DE    | 232,000                   | Fulton Bank, N.A.         | 17                               | 5                | 3  | 9.2%  |
| Anne Arundel.....    | MD    | 580,000                   | The Columbia Bank         | 26                               | 14               | 19   | 0.7%  |
| Baltimore.....       | MD    | 836,000                   | The Columbia Bank         | 29                               | 23               | 11   | 0.4%  |
| Baltimore City.....  | MD    | 607,000                   | The Columbia Bank         | 24                               | 28               | 18   | 0.9%  |
| Cecil.....           | MD    | 103,000                   | The Columbia Bank         | 7                                | 4                | 2  | 15.0% |
| Frederick.....       | MD    | 256,000                   | The Columbia Bank         | 16                               | 7                | 15   | 1.0%  |
| Howard.....          | MD    | 328,000                   | The Columbia Bank         | 19                               | 10               | 4  | 8.1%  |
| Montgomery.....      | MD    | 832,000                   | The Columbia Bank         | 28                               | 28               | 20   | 0.6%  |
| Prince George's..... | MD    | 920,000                   | The Columbia Bank         | 18                               | 28               | 22   | 0.5%  |
| Washington.....      | MD    | 151,000                   | The Columbia Bank         | 11                               | 4                | 2  | 19.9% |
| Atlantic.....        | NJ    | 268,000                   | Fulton Bank of New Jersey | 12                               | 8                | 10   | 2.3%  |
| Burlington.....      | NJ    | 448,000                   | Fulton Bank of New Jersey | 21                               | 22               | 14   | 1.1%  |
| Camden.....          | NJ    | 510,000                   | Fulton Bank of New Jersey | 21                               | 20               | 10   | 2.4%  |
| Cumberland.....      | NJ    | 253,000                   | Fulton Bank of New Jersey | 11                               | 7                | 13   | 1.9%  |
| Gloucester.....      | NJ    | 293,000                   | Fulton Bank of New Jersey | 22                               | 9                | 2  | 13.0% |

| County              | State | Population<br>(2019 Est.) | Banking Subsidiary        | No. of Financial Institutions |                  | Deposit Market Share<br>(June 30, 2018) <sup>(1)</sup> |       |
|---------------------|-------|---------------------------|---------------------------|-------------------------------|------------------|--|-------|
|                     |       |                           |                           | Banks/<br>Thrifts             | Credit<br>Unions | Rank   | %     |
| Hunterdon.....      | NJ    | 125,000                   | Fulton Bank of New Jersey | 16                            | 8                | 10   | 2.5%  |
| Mercer .....        | NJ    | 376,000                   | Fulton Bank of New Jersey | 25                            | 30               | 17   | 0.8%  |
| Middlesex .....     | NJ    | 848,000                   | Fulton Bank of New Jersey | 43                            | 44               | 30   | 0.3%  |
| Monmouth .....      | NJ    | 626,000                   | Fulton Bank of New Jersey | 25                            | 18               | 24   | 0.7%  |
| Morris .....        | NJ    | 501,000                   | Fulton Bank of New Jersey | 35                            | 31               | 14   | 1.4%  |
| Ocean.....          | NJ    | 604,000                   | Fulton Bank of New Jersey | 19                            | 11               | 15   | 1.3%  |
| Salem.....          | NJ    | 62,000                    | Fulton Bank of New Jersey | 6                             | 5                | 1  | 30.6% |
| Somerset .....      | NJ    | 337,000                   | Fulton Bank of New Jersey | 25                            | 18               | 9  | 2.4%  |
| Warren .....        | NJ    | 107,000                   | Fulton Bank of New Jersey | 12                            | 7                | 5  | 7.5%  |
| Chesapeake City ... | VA    | 245,000                   | Fulton Bank, N.A.         | 13                            | 11               | 9  | 2.0%  |
| Fairfax .....       | VA    | 1,155,000                 | Fulton Bank, N.A.         | 36                            | 35               | 40   | —%    |
| Henrico .....       | VA    | 330,000                   | Fulton Bank, N.A.         | 22                            | 18               | 22   | 0.8%  |
| Manassas .....      | VA    | 42,000                    | Fulton Bank, N.A.         | 12                            | 4                | 8  | 2.2%  |
| Newport News.....   | VA    | 180,000                   | Fulton Bank, N.A.         | 12                            | 9                | 15   | 0.4%  |
| Richmond City ..... | VA    | 230,000                   | Fulton Bank, N.A.         | 15                            | 15               | 14   | 0.2%  |
| Virginia Beach..... | VA    | 453,000                   | Fulton Bank, N.A.         | 15                            | 16               | 10   | 1.5%  |

(1) Deposit market share information is compiled as of June 30 of each year by the Federal Deposit Insurance Corporation ("FDIC").

### *Supervision and Regulation*

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

The Corporation is a registered financial holding company 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:

| <u>Subsidiary</u>               | <u>Charter</u> | <u>Primary Regulator(s)</u> |
|---------------------------------|----------------|-----------------------------|
| 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          |

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 is 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 and 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, exceeded the \$10 billion threshold, 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.

The Economic Growth, Regulatory Relief, and Consumer Protection Act - On May 24, 2018, the President signed into law the Economic Growth, Regulatory Relief, and Consumer Protection Act ("Economic Growth Act"), which repealed or modified several important provisions of the Dodd-Frank Act. Among other things, the Economic Growth Act raises the total asset thresholds to \$250 billion for Dodd-Frank Act annual company-run stress testing, leverage limits, liquidity requirements, and resolution planning requirements for bank holding companies, subject to the ability of the Federal Reserve Board to apply such requirements to institutions with assets of \$100 billion or more to address financial stability risks or safety and soundness concerns. On July 6, 2018, the Federal Reserve Board, the OCC and the FDIC issued a joint interagency statement regarding the impact of the Economic Growth Act. As a result of this statement and the Economic Growth Act, the Corporation is no longer subject to Dodd-Frank Act stress testing requirements. On December 18, 2018, the OCC published a notice of proposed rulemaking to amend the OCC's stress testing rule to implement the revised stress testing asset threshold.

The Economic Growth Act also enacted several important changes in some technical compliance areas, for which the banking agencies issued certain corresponding proposed and interim final rules, including:

- Prohibiting federal banking regulators from imposing higher capital standards on High Volatility Commercial Real Estate ("HVCRE") exposures unless they are for acquisition, development or construction ("ADC"), and clarifying ADC status;
- Requiring the federal banking agencies to develop a community bank leverage ratio of between 8 and 10 percent and providing that community banking organizations that have less than \$10 billion in total consolidated assets, meet risk-based qualifying criteria, and comply with the new community bank leverage ratio framework will be deemed to have satisfied the otherwise applicable regulatory capital requirements;
- Requiring the federal banking agencies to develop a rule to reduce regulatory reporting burden on small institutions of less than \$5 billion in total consolidated assets by expanding the number of regulated institutions eligible for streamlined reporting;
- Requiring the federal banking agencies to develop a rule to permit insured depository institutions with up to \$3 billion in total assets, and that meet certain other criteria, to qualify for an 18-month on-site examination cycle;
- Exempting from appraisal requirements certain transactions involving real property in rural areas and valued at less than \$400,000;
- Providing that reciprocal deposits are not treated as brokered deposits in the case of a "well capitalized" institution that received a "outstanding" or "good" rating on its most recent examination to the extent the amount of such deposits does not exceed the lesser of \$5 billion or 20% of the bank's total liabilities;
- Directing the Consumer Financial Protection Bureau to provide guidance on the applicability of the TILA-RESPA Integrated Disclosure rule to mortgage assumption transactions and construction-to-permanent home loans, as well the extent to which lenders can rely on model disclosures that do not reflect recent regulatory changes; and
- Excluding community banks with \$10 billion or less in total consolidated assets and total trading assets and liabilities of 5 percent or less of total consolidated assets from the restrictions of the Volcker Rule.

Given the varying asset sizes of the Corporation's subsidiary banks, only those below the applicable asset thresholds will be able to benefit from the corresponding community bank relief provided by the Economic Growth Act. To the extent the Corporation is successful in consolidating its subsidiary banks, the benefits afforded to community banks under the applicable asset thresholds will no longer be available.

Stress Testing - As part of the regulatory relief provided by the Economic Growth Act, the asset threshold requiring insured depository institutions to conduct and report to their primary federal bank regulators annual company-run stress tests was raised from \$10 billion to \$250 billion in total consolidated assets and makes the requirement "periodic" rather than annual. The amendments also provide the Federal Reserve Board with discretion to subject bank holding companies with more than \$100 billion in total assets to enhanced supervision. Notwithstanding these amendments, the federal banking agencies indicated through interagency guidance that the capital planning and risk management practices of institutions with total assets less than \$100 billion would continue to be reviewed through the regular supervisory process. Although the Corporation will continue to monitor and stress test its capital consistent with the safety and soundness expectations of the federal regulators, the Corporation will no longer conduct company-run stress testing as a result of the legislative amendments.

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 is 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. The Corporation's bank subsidiaries are cooperating with an investigation by the DOJ regarding potential violations of fair lending laws. See "Note-17 Commitments and Contingencies - Legal Proceedings," in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data." Failure to comply with these and similar statutes and regulations can result in the Corporation 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. 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.

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. In July 2018, the five federal financial regulatory agencies published a joint notice of proposed rulemaking that would simplify and tailor compliance requirements relating to the Volcker Rule. The proposed changes are intended to streamline the rule by eliminating or modifying requirements that are not necessary to effectively implement the statute, while maintaining the core principles of the Volcker Rule as well as the safety and soundness of banking entities. Specifically, the proposal requested comment on narrowing the definition of what is a covered fund that a bank cannot sponsor or invest in, and broadening the "Super 23 A" exemptions to match those in the Federal Reserve Board's Regulation W. In addition, in December 2018 pursuant to the Economic Growth Act, the five federal financial regulatory agencies invited public comment on a proposal that would exclude community banks with \$10 billion or less in total consolidated assets and total trading assets and liabilities of five percent or less of total consolidated assets from the restrictions of the Volcker Rule. Due to the asset threshold under the proposal, this relief would only benefit Fulton Bank of New Jersey, The Columbia Bank, and Lafayette Ambassador Bank. The Corporation 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 the Corporation's compliance



burdens. If adopted, the regulations may affect the Corporation in the future by reducing some compliance costs, and expanding opportunities, but the Corporation may experience some costs in developing and implementing changes in conformance with the rules once finalized.

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 were fully phased in as of 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.

As fully phased in as of January 1, 2019, the Corporation and its bank subsidiaries are 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, 2018, 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, the Corporation anticipates 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, therefore, 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.

In addition, the Economic Growth Act provides certain capital relief. First, it requires the development a simple measure of capital adequacy for certain community banking organizations that have less than \$10 billion in total consolidated assets. In November of 2018, the federal banking agencies issued a proposed rule that would establish the community bank leverage ratio at 9 percent. Second, it prohibits the federal banking agencies from requiring the subsidiary banks to assign a heightened risk weight to certain HVCRE ADC loans as previously required under the U.S. Basel III Capital Rules.

In June 2016, the Financial Accounting Standards Board ("FASB") issued an accounting standard update, "Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments," which replaces the current "incurred loss" model for recognizing credit losses with an "expected loss" model referred to as the Current Expected Credit Loss ("CECL") model. Under the CECL model, the Corporation will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. On December 21, 2018, the federal banking agencies approved a final rule modifying their regulatory capital rules and providing an option to phase in over a period of three years the day-one regulatory capital effects of the CECL model. The final rule also revises the agencies' other rules to reflect the update to the accounting standards. The final rule will take effect April 1, 2019. The new CECL standard will become effective for the Corporation for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. The Corporation is currently evaluating the impact the CECL model will have on its financial statements, but expects to recognize a one-time cumulative-effect adjustment to the allowance for credit losses as of the beginning of the first reporting period in which the new standard is adopted, or January 1, 2020 for the Corporation. The Corporation also expects to incur both transition costs and ongoing costs in developing and implementing the CECL methodology.

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, 2018, 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 Parent Company 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 Parent Company 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 2019 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 September 30, 2018, the DIF reserve ratio reached 1.36 percent, exceeding the statutorily required minimum reserve ratio of 1.35 percent ahead of the September 30, 2020, deadline required under the Dodd-Frank Act. FDIC regulations provide that, upon reaching the minimum, surcharges on insured depository institutions with total consolidated assets of \$10 billion or more will cease. The last quarterly surcharge was reflected in Fulton Bank's December 2018 assessment invoice, which covered the assessment period from July 1 through September 30. March 2019 assessment invoices, which covers the assessment period from October 1, 2018, through December 31, 2018, no longer will include a quarterly surcharge.

Assessment rates, which declined for all banks when the reserve ratio first surpassed 1.15 percent in the third quarter of 2016, are expected to remain unchanged. Assessment rates are scheduled to decrease when the reserve ratio exceeds 2 percent.

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.

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, effective May 2018, 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 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 Parent Company and its banking subsidiary, Lafayette Ambassador Bank, are currently subject to a regulatory enforcement order (the "Consent Order") issued by the Federal Reserve Board 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 Order requires, among other things, that the Parent Company and Lafayette Ambassador Bank review, assess and take actions to strengthen and enhance the BSA/AML Compliance Program, and 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 - "Failure to comply with the BSA, the Patriot Act and related anti-money laundering requirements could subject the Corporation to enforcement actions, fines, penalties, sanctions and other 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 of 1977 ("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, 2018, 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 \$16.3 million and \$124.2 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 \$124.2 million. The first \$16.3 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 Riegle-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.

Pursuant to the Dodd Frank Act, national and state-chartered banks may open an initial branch in a state other than its home state (e.g., a host state) by establishing a *de novo* branch at any location in such host state at which a bank chartered in such host state could establish a branch. Applications to establish such branches must still be filed with the appropriate primary federal regulator.

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 <sup>(1)</sup> | Office Held and Term of Office   |
|-----------------------|--------------------|--|
| E. Philip Wenger      | 61                 | 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.  |
| Mark R. McCollom      | 54                 | Senior Executive Vice President and Chief Financial Officer of the Corporation since March of 2018. Mr. McCollom joined the Corporation in November 2017 as Senior Executive Vice President and Chief Financial Officer Designee. Before joining the corporation he was a Senior Managing Director, Chief Administrative Officer and COO of Griffin Financial Group, LLC. 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       | 50                 | President and Chief Operating Officer of the Corporation since January 1, 2018. Chairman and Chief Executive Officer of Fulton Bank, N.A. since May 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     | 57                 | 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 | 58                 | 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        | 54                 | 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.  |
| Angela M. Sargent     | 51                 | 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.  |
| Angela M. Snyder      | 54                 | 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     | 62                 | 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 later served as deputy general counsel at KeyCorp and chief counsel special projects at PNC Financial Services Group, Inc. He has more than 30 years of experience working in financial services law.   |
| Bernadette M. Taylor  | 57                 | 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, 2018



## **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 or in interest rates; high unemployment; governmental fiscal and monetary policies; the level of, or changes in, prices of raw materials, goods or commodities; global economic conditions and trade policies; geopolitical events; natural disasters; acts of war or terrorism; 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, which is recorded as a reduction to loans on the consolidated balance sheet, and the reserve for unfunded lending commitments, which is included in other liabilities on the consolidated balance sheet. While the Corporation believes that its allowance for credit losses as of December 31, 2018 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 credit losses represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date. 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 for credit losses, 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 73% of the Corporation's loan portfolio was in commercial loans, commercial mortgage loans, and construction loans at December 31, 2018. 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 governmental regulation.

After having risen significantly in recent years, the pace of commercial real estate price appreciation slowed during 2018. Capitalization rates, which measure annual income relative to prices for recently transacted properties, have been falling, even as yields on U.S. Treasury securities increased through much of 2018. As a result, the returns to commercial real estate investors reflect a relatively low premium over very safe alternative investments, which may limit further appreciation of, or create downward pressure on, commercial real estate prices. 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, could 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 76% of total revenues in 2018. In recent years, as the general level of short-term interest rates has increased, the Corporation's net interest margin, or the difference between interest earned on loans and investments and interest paid on deposits and borrowings, has increased, contributing to growth in the Corporation's net interest income. During this period of rising interest rates, increased competition for deposits has caused the interest rates paid on interest-bearing deposits to increase by a larger amount than in the recent past, for any given increase in market interest rates, causing growth in the Corporation's net interest margin to moderate. The January 2019 statement issued by the Federal Open Market Committee (the "FOMC") of the Federal Reserve Board indicated that the FOMC will be "patient" as it determines future adjustments to the target range for the federal funds rate, which has caused some research analysts and economists to expect that, after increasing the target range for the federal funds rate seven times in the past two years, the FOMC may slow or defer further increases in the federal funds rate. The federal funds rate significantly influences the general level of short-term interest rates. The Corporation's ability to continue to expand its net interest margin may be challenged if the general level of short-term interest rates does not increase.

In the event that the general level of interest rates declines, the net interest margin may come under pressure as interest-earning assets, such as loans and investments, are 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, may also decline, the decline may not occur 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.

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. If a determination is made that a decline is other-than-temporary, an other-than-temporary impairment charge is recorded.

***The planned phasing out of LIBOR as a financial benchmark presents risks to the financial instruments originated or held by the Corporation.***

The London Interbank Offered Rate ("LIBOR") is the reference rate used for many of the Corporation's transactions, including variable and adjustable rate loans, derivative contracts, borrowings and other financial instruments. However, a reduced volume of interbank unsecured term borrowing coupled with recent legal and regulatory proceedings related to rate manipulation by certain financial institutions has led to international reconsideration of LIBOR as a financial benchmark. The United Kingdom Financial Conduct Authority ("FCA"), which regulates the process for establishing LIBOR, announced in July 2017 that the sustainability of LIBOR cannot be guaranteed. Accordingly, the FCA intends to stop persuading, or compelling, banks to submit to LIBOR after 2021. Until such time, however, FCA panel banks have agreed to continue to support LIBOR. It is impossible to predict what benchmark rate(s) may replace LIBOR or how LIBOR will be determined for purposes of financial instruments that are currently referencing LIBOR if, and when, it ceases to exist. The uncertainty surrounding potential reforms, including the use of alternative reference rates and changes to the methods and processes used to calculate rates, may have an adverse effect on the trading market for LIBOR-based securities, loan yields, and the amounts received and paid on derivative contracts and other financial instruments. In addition, the implementation of LIBOR reform proposals may result in increased compliance and operational costs.

***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. 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. 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.

***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 Corporation, 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 12% of total deposits at December 31, 2018. 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. Advances in technology, such as online banking, mobile banking, digital payment platforms and the acceleration of financial technology innovation, have also made it easier to move money, potentially causing customers to switch financial institutions or switch to non-bank competitors. 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 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. See *"The recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act did not eliminate many of the aspects of the Dodd Frank Act that have increased the Corporation's compliance costs, and remains subject to further rulemaking."* in these Risk Factors.

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.

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 an example of such limitations, the regulatory enforcement order to which the Parent Company and its bank subsidiary, Lafayette Ambassador Bank, are subject imposes certain restrictions on the expansion activities of the Parent Company and Lafayette Ambassador Bank.

***The Corporation has begun the process of consolidating its bank subsidiaries, which will result in significant implementation costs in 2019.***

The Corporation has four bank subsidiaries, and the Corporation and its subsidiaries are subject to regulation by multiple 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 begun the process of consolidating its bank subsidiaries, having consolidated two of its bank subsidiaries into its largest bank subsidiary, Fulton Bank, during 2018. 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 completion of this consolidation process depends, in part, on the Parent Company and Lafayette Ambassador Bank demonstrating that certain deficiencies in the BSA/AML Compliance Program, and the corresponding requirements of the regulatory enforcement order described below, have been satisfactorily remediated. The consolidation of the Corporation's bank subsidiaries will result in significant implementation costs. 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.

***Failure to comply with the BSA, the Patriot Act and related anti-money laundering requirements could subject the Corporation to enforcement actions, fines, penalties, sanctions and other remedial actions.***

The BSA/AML Requirements mandate that financial institutions develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file Suspicious Activity Reports with the U.S. Department of the Treasury's Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts, as well as a customer's beneficial owners.

During 2014 and 2015, the Parent Company and each of its bank subsidiaries became subject to regulatory enforcement orders issued by their respective Federal and state bank regulatory agencies relating to identified deficiencies in the BSA/AML Compliance Program, which was designed to comply with the BSA/AML Requirements. While the majority of these enforcement orders have

since been terminated, as mentioned above, the Parent Company and Lafayette Ambassador Bank remain subject to a Cease and Desist Order Issued Upon Consent (the "Consent Order") issued by the Federal Reserve Board. While the Consent Order remains in effect, the Parent Company and Lafayette Ambassador Bank are subject to certain restrictions on expansion activities, such as growth through acquisition or branching to supplement organic growth. Further, any failure to comply with the requirements of the Consent Order could result in further enforcement action, 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 in recent years 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 Order, 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 Order, some counterparties may not be permitted to, due to their internal policies, or may choose not to do business with the Corporation or one or more of 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 Order will be terminated, or that the BSA/AML Compliance Program will be effective in preventing violations of the BSA/AML Requirements.

***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 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 it deems to be 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 recently enacted Economic Growth, Regulatory Relief, and Consumer Protection Act did not eliminate many of the aspects of the Dodd Frank Act that have increased the Corporation's compliance costs, and remains subject to further rulemaking.***

The Economic Growth Act represents modest reform to the regulation of the financial services industry primarily through certain amendments of the Dodd-Frank Act. Many of the provisions are intended to benefit community banks with assets less than \$10 billion. The Corporation's subsidiary banks with asset levels below the applicable thresholds may be able to benefit from

corresponding community bank relief provided by the Economic Growth Act, such as the community bank leverage ratio, reducing the regulatory reporting burden, and permitting an 18-month on-site examination cycle. However, many provisions of the Dodd-Frank Act that have increased the Corporation's compliance costs, such as the Volcker Rule, the Durbin amendment restricting interchange fees, and the additional supervisory authority of the CFPB, remain in place for the Corporation's largest bank subsidiary, Fulton Bank. Further, to the extent the Corporation is successful in consolidating all of its subsidiary banks into one bank, the benefits afforded under the Economic Growth Act to the Corporation's smaller subsidiary banks would be eliminated.

Certain of the provisions amended by the Economic Growth Act took effect immediately, while others are subject to ongoing joint agency rulemakings. It is not possible to predict when any final rules would ultimately be issued through any such rulemakings, and what the specific content of such rules will be. Although the Corporation expects to benefit from many aspects of this legislative reform, the legislation and any implementing rules that are ultimately issued could have adverse implications on the financial industry, the competitive environment, and the Corporation's ability to conduct business. In addition, the federal banking agencies indicated through interagency guidance that the capital planning and risk management practices of institutions with total assets less than \$100 billion would continue to be reviewed through the regular supervisory process, which may offset the impact of the Economic Growth Act's changes regarding stress testing and risk management.

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

The federal banking agencies have experienced leadership changes, which could impact the supervision, enforcement and rulemaking policies of those agencies. In 2017 and 2018, Congress confirmed a new Chairman of the Federal Reserve Board, a new Vice Chairman for Supervision at the Federal Reserve Board, a new Comptroller of the Currency, a new Chairwoman of the FDIC and a new Director of the CFPB. 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. As a result of these changes, and political and economic trends, certain new regulatory initiatives may be delayed or suspended and existing regulations may be re-evaluated, modified or repealed. In November 2018, the Democrats became the majority party of the U.S. House of Representatives and assumed leadership of the House Committee on Financial Services. At this time, the full impact of these 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, its competitors and on the financial services industry as a whole. The Corporation's 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 the Corporation's financial performance.***

The Corporation is subject to changes in tax law that could increase the Corporation's effective tax rates. These law changes may be retroactive to previous periods and as a result could negatively affect the Corporation's current and future financial performance. In December 2017, 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 Tax Act reduced the Corporation's Federal corporate income tax rate to 21% beginning in 2018. However, the Tax Act also imposed limitations on the Corporation's ability to take certain deductions, such as the deduction for FDIC deposit insurance premiums, which will partially offset the anticipated increase in net income from the lower tax rate.

In addition, the Corporation's customers are likely to experience varying effects from both the individual and business tax provisions of the Tax Act and such effects, whether positive or negative, may have a corresponding impact on the Corporation's business and the economy as a whole. Furthermore, 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 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 has been named or threatened to be named as defendant in various lawsuits arising from its business activities (and in some cases from the activities of companies that were acquired). In addition, the Corporation is regularly the subject of governmental investigations and other forms of regulatory or governmental inquiry. For example, the Corporation is cooperating with the DOJ in an investigation regarding potential violations of the fair lending laws by its bank subsidiaries, and is responding to an investigation by the staff of the Division of Enforcement of the U.S. Securities and Exchange Commission regarding certain accounting determinations that could have impacted the Corporation's reported earnings per share. 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 lawsuits, investigations, inquiries and other matters could lead to administrative, civil or criminal proceedings, or result in adverse judgments, settlements, fines, penalties, restitution, injunctions or other types of sanctions, or the need for the Corporation to undertake remedial actions, or to alter its business, financial or accounting practices. Substantial legal liability or significant regulatory actions against the Corporation could materially adversely affect the Corporation's business, financial condition or results of operations and/or cause significant reputational harm. The Corporation establishes reserves for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. For matters where a loss is not probable, or the amount of the loss cannot be reasonably estimated by the Corporation, no loss reserve is established. However, the Corporation may still incur legal costs for a matter, even if a reserve has not been established.

Currently, the Parent Company and Lafayette Ambassador Bank are subject of a regulatory proceeding in the form of the Consent Order described above. The Corporation can provide no assurance as to the outcome or resolution of legal or administrative actions or investigations, and such actions and investigations may result in judgments against the Corporation for significant damages or the imposition of regulatory restrictions on the Corporation's 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.

## **STRATEGIC AND EXTERNAL RISKS.**

***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 interest rate environment, it may become more difficult for the Corporation to further increase its net interest margin or its net interest margin may come under downward pressure. 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; and
- The Corporation may seek to supplement organic growth through acquisitions, but may not be able to identify suitable acquisition opportunities, obtain the required regulatory approvals or successfully integrate acquired businesses.

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. Sustainable growth requires that the Corporation manage risks by balancing loan and deposit growth at acceptable levels of risk, maintaining adequate liquidity and capital, hiring and retaining qualified employees, successfully managing the costs and implementation risks with respect to strategic projects and initiatives, and integrating acquisition targets while managing costs. 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 Corporation faces a variety of risks in connection with completed and potential acquisitions.***

The Corporation may seek to supplement organic growth through acquisitions of banks or branches, or other financial businesses or assets. Acquiring other banks, branches, financial businesses or assets involves a variety of risks commonly associated with acquisitions, including, among other things:

- The possible loss of key employees and customers of the acquired business;
- Potential disruption of the acquired business and the Corporation's business;
- Potential changes in banking or tax laws or regulations that may affect the acquired business including, without limitation, liabilities for regulatory and compliance issues;
- Exposure to potential asset quality issues of the acquired business;
- Potential exposure to unknown or contingent liabilities of the acquired business; and
- Potential difficulties in integrating the acquired business, resulting in the diversion of resources from the operation of the Corporation's existing businesses.

Acquisitions typically involve the payment of a premium over book and market values, and therefore, some dilution of the Corporation's tangible book value and net income per common share may occur in connection with any future transaction. Failure to realize the expected revenue increases, cost savings, increases in geographic or product presence, and/or other projected benefits from an acquisition could have a material adverse effect on the Corporation's business, financial condition and results of operations. In addition, the Corporation faces significant competition from other financial services institutions, some of which may have greater financial resources than the Corporation, when considering acquisition opportunities. Accordingly, attractive opportunities may not be available and there can be no assurance that the Corporation will be successful in identifying, completing or integrating future acquisitions.

***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 or records in the future 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. In the future, the Corporation may seek to supplement organic growth through additional acquisitions. 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, 2018, 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 the Corporation reports its 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." On December 21, 2018, the bank regulatory agencies approved a final rule modifying the agencies' regulatory capital rules and providing an option to phase in over a period of three years the day-one regulatory capital effects of adoption of the CECL model. The final rule also revises the agencies' other rules to reflect the update to the accounting standards. The final rule will take effect April 1, 2019. The new CECL standard will become effective for the Corporation for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years. The Corporation is currently evaluating the impact the CECL model will have on its financial statements, but expects to recognize a one-time cumulative-effect adjustment to the allowance for credit losses as of the beginning of the first reporting period in which the new standard is adopted, or January 1, 2020 for the Corporation. The Corporation also expects to incur both transition costs and ongoing costs in developing and implementing the CECL methodology. The Corporation cannot yet determine the magnitude of any such one-time cumulative adjustment or of the overall impact of the new standard on its financial condition or results of operations. 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, borrowers or guarantors, 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.

***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 or results of operations, and damage its reputation. 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 and mobile banking functions, 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 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 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 other negative consequences, such as the loss of, or inability to access, data, degradation or denial of service and introduction of computer viruses. 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 the Corporation's ability to function would have a material adverse effect on the Corporation's 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 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.

***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.***

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 became 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, 2018, 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."

In addition, although Fulton Bank of New Jersey, The Columbia Bank, and Lafayette Ambassador Bank may benefit from the proposed community bank leverage ratio, such benefit would not be available to the Corporation or Fulton Bank. 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 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.***

Fulton Financial 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. The Federal Reserve Board recently has expressed its position that all stock repurchase programs by a bank holding company require the prior approval of the Federal Reserve Board. To the extent the Federal Reserve Board maintains this position, the Corporation may not be able to enter the market for stock repurchases on a timely basis when the Corporation's board of directors and management believe such repurchases to be most opportune, or at all.

***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 the Corporation's 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, 2018. Remote service facilities (mainly stand-alone automated teller machines) are excluded.

| <u>Subsidiary Bank</u>          | <u>Owned</u> | <u>Leased</u> | <u>Total<br/>Branches</u> |
|---------------------------------|--------------|---------------|---------------------------|
| Fulton Bank, N.A. ....          | 54           | 68            | 122                       |
| Fulton Bank of New Jersey ..... | 34           | 27            | 61                        |
| The Columbia Bank.....          | 6            | 25            | 31                        |
| Lafayette Ambassador Bank.....  | 4            | 16            | 20                        |
| <i>Total</i> .....              | <u>98</u>    | <u>136</u>    | <u>234</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.

| <u>Entity</u>  | <u>Property</u>        | <u>Location</u>     | <u>Owned/<br/>Leased</u> |
|--|------------------------|---------------------|--------------------------|
| 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 - Commitments 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, 2018, the Corporation had 170.2 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, 2019 was \$16.91. 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 2018 and 2017:

|                     | Price Range |          | Per Share Dividend |
|---------------------|-------------|----------|--------------------|
|                     | High        | Low      |                    |
| <b>2018</b>         |             |          |                    |
| First Quarter.....  | \$ 19.55    | \$ 17.05 | \$ 0.12            |
| Second Quarter..... | 18.02       | 16.50    | 0.12               |
| Third Quarter.....  | 18.45       | 15.05    | 0.12               |
| Fourth Quarter..... | 17.60       | 14.38    | 0.16               |
| <b>2017</b>         |             |          |                    |
| 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               |

#### *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, 2018:

| Plan Category   | Number of securities to be issued upon exercise of outstanding options, warrants and rights <sup>(1)</sup> | Weighted-average exercise price of outstanding options, warrants and rights <sup>(2)</sup> | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column) <sup>(3)</sup> |
|---|--|--|--|
| Equity compensation plans approved by security holders .....  | 2,027,261  | \$ 10.75   | 12,615,906   |
| Equity compensation plans not approved by security holders... | —  | —  | —  |
| Total .....   | 2,027,261  | \$ 10.75   | 12,615,906   |

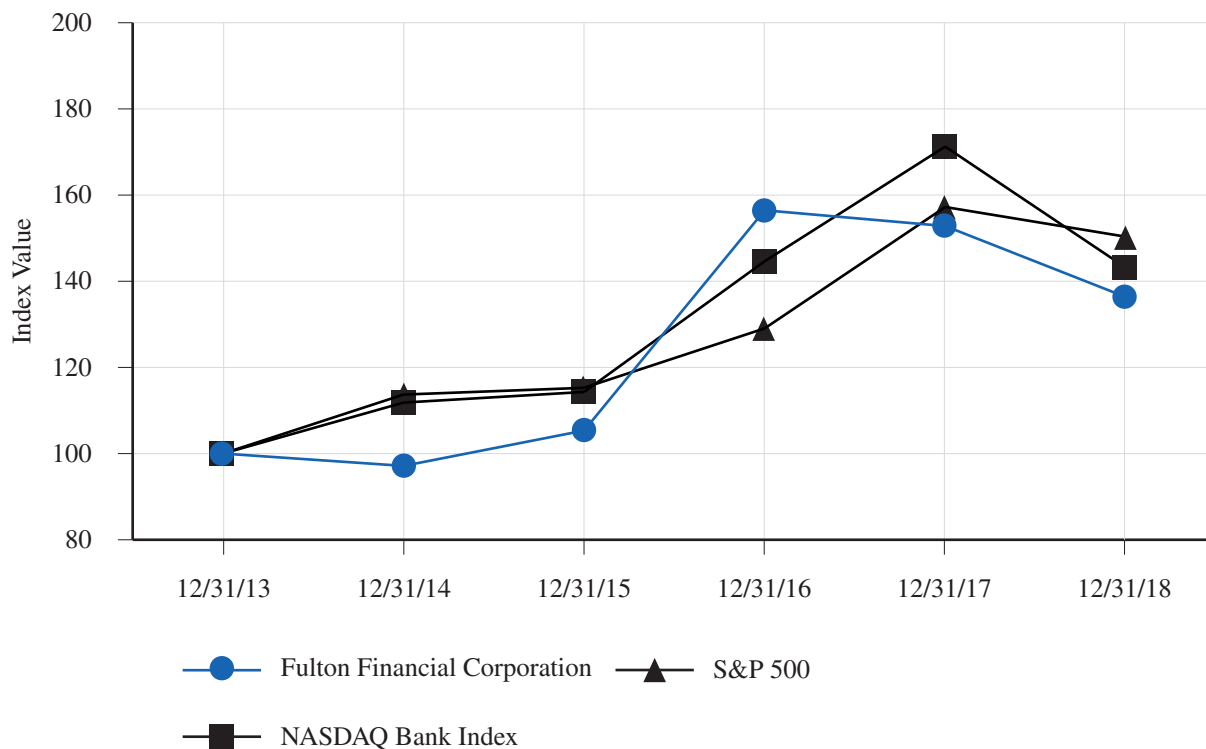
- (1) The number of securities to be issued upon exercise of outstanding options, warrants and rights includes 854,022 performance-based restricted stock units ("PSUs"), which is the target number of PSUs that are payable under the Employee Equity Plan, though no shares will be issued until achievement of applicable performance goals, and includes 514,471 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 10,542,693 shares that may be awarded under the Employee Equity Plan, 311,669 shares that may be awarded under the 2011 Directors' Equity Participation Plan and 1,761,544 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, 2018 as the number of shares to be purchased is indeterminable until the 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, 2018, 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.

### Fulton Financial Corporation Total Return Performance



| Index                             | Year Ending December 31 |           |           |           |           |           |
|-----------------------------------|-------------------------|-----------|-----------|-----------|-----------|-----------|
|                                   | 2013                    | 2014      | 2015      | 2016      | 2017      | 2018      |
| Fulton Financial Corporation..... | \$ 100.00               | \$ 97.14  | \$ 105.34 | \$ 156.46 | \$ 152.80 | \$ 136.33 |
| S&P 500.....                      | \$ 100.00               | \$ 113.69 | \$ 115.26 | \$ 129.05 | \$ 157.22 | \$ 150.33 |
| NASDAQ Bank Index .....           | \$ 100.00               | \$ 111.83 | \$ 114.30 | \$ 144.63 | \$ 171.24 | \$ 143.15 |

## Issuer Purchases of Equity Securities

The following table presents the Corporation's monthly repurchases of its common stock during the fourth quarter of 2018:

| Period                                | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---------------------------------------|----------------------------------|------------------------------|--|--|
| October 1, 2018 to October 31, 2018   | —                                | \$ —                         | —  | \$ 31,491,674  |
| November 1, 2018 to November 30, 2018 | 1,884,406                        | 16.71                        | 1,884,406  | 75,000,000   |
| December 1, 2018 to December 31, 2018 | 4,111,813                        | 15.49                        | 4,111,813  | 11,322,254   |

In November 2017, the Corporation's board of directors approved an extension to 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, 2018. During 2018, the Corporation repurchased approximately 1.9 million shares under this program for a total cost of approximately \$31.5 million, or \$16.71 per share, completing this program.

In November 2018, the Corporation's board of directors approved a share repurchase program pursuant to which the Corporation is authorized to repurchase up to \$75.0 million of its outstanding shares of common stock, or approximately 2.7% of its outstanding shares, through December 31, 2019. During 2018, the Corporation repurchased approximately 4.1 million shares under this program for a total cost of \$63.7 million or \$15.49 per share. Up to an additional \$11.3 million of the Corporation's common stock may be repurchased under this program through December 31, 2019.

Total commissions and fees paid on stock repurchases in 2018 were \$139,000. Under both repurchase programs, repurchased shares were 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.

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

(dollars in thousands, except per-share data)

|  | 2018          | 2017          | 2016          | 2015          | 2014          |
|--|---------------|---------------|---------------|---------------|---------------|
| <b><u>SUMMARY OF INCOME</u></b>  |               |               |               |               |               |
| Interest income.....   | \$ 758,514    | \$ 668,866    | \$ 603,100    | \$ 583,789    | \$ 596,078    |
| Interest expense .....   | 128,058       | 93,502        | 82,328        | 83,795        | 81,211        |
| Net interest income .....  | 630,456       | 575,364       | 520,772       | 499,994       | 514,867       |
| Provision for credit losses.....   | 46,907        | 23,305        | 13,182        | 2,250         | 12,500        |
| Investment securities gains, net .....   | 37            | 9,071         | 2,550         | 9,066         | 2,041         |
| Non-interest income, excluding investment securities gains.....                        | 195,488       | 198,903       | 187,628       | 172,773       | 165,338       |
| Loss on redemption of trust preferred securities .....                                 | —             | —             | —             | 5,626         | —             |
| Non-interest expense, excluding loss on redemption of trust preferred securities ..... | 546,104       | 525,579       | 489,519       | 474,534       | 459,246       |
| Income before income taxes .....   | 232,970       | 234,454       | 208,249       | 199,423       | 210,500       |
| Income taxes .....   | 24,577        | 62,701        | 46,624        | 49,921        | 52,606        |
| Net income.....  | \$ 208,393    | \$ 171,753    | \$ 161,625    | \$ 149,502    | \$ 157,894    |
| <b><u>PER COMMON SHARE</u></b>   |               |               |               |               |               |
| Net income (basic).....  | \$ 1.19       | \$ 0.98       | \$ 0.93       | \$ 0.85       | \$ 0.85       |
| Net income (diluted).....  | 1.18          | 0.98          | 0.93          | 0.85          | 0.84          |
| Cash dividends.....  | 0.52          | 0.47          | 0.41          | 0.38          | 0.34          |
| <b><u>RATIOS</u></b>   |               |               |               |               |               |
| Return on average assets.....  | 1.03%         | 0.88%         | 0.88%         | 0.86%         | 0.93%         |
| Return on average equity .....   | 9.24          | 7.83          | 7.69          | 7.38          | 7.62          |
| Return on average tangible equity <sup>(1)</sup> .....                                 | 12.09         | 10.33         | 10.30         | 10.01         | 10.31         |
| Net interest margin .....  | 3.40          | 3.28          | 3.18          | 3.21          | 3.39          |
| Efficiency ratio <sup>(1)</sup> .....  | 63.8          | 64.5          | 67.2          | 68.6          | 65.7          |
| Dividend payout ratio .....  | 44.1          | 48.0          | 44.1          | 44.7          | 40.5          |
| <b><u>PERIOD-END BALANCES</u></b>  |               |               |               |               |               |
| Total assets.....  | \$ 20,682,152 | \$ 20,036,905 | \$ 18,944,247 | \$ 17,914,718 | \$ 17,124,767 |
| Investment securities .....  | 2,686,973     | 2,547,956     | 2,559,227     | 2,484,773     | 2,323,371     |
| Loans, net of unearned income.....   | 16,165,800    | 15,768,247    | 14,699,272    | 13,838,602    | 13,111,716    |
| Deposits .....   | 16,376,159    | 15,797,532    | 15,012,864    | 14,132,317    | 13,367,506    |
| Short-term borrowings.....   | 754,777       | 617,524       | 541,317       | 497,663       | 329,719       |
| FHLB advances and long-term debt.....  | 992,279       | 1,038,346     | 929,403       | 949,542       | 1,139,413     |
| Shareholders' equity .....   | 2,247,573     | 2,229,857     | 2,121,115     | 2,041,894     | 1,996,665     |
| <b><u>AVERAGE BALANCES</u></b>   |               |               |               |               |               |
| Total assets.....  | \$ 20,183,202 | \$ 19,580,367 | \$ 18,371,173 | \$ 17,406,843 | \$ 16,959,507 |
| Investment securities .....  | 2,662,800     | 2,547,914     | 2,469,564     | 2,347,810     | 2,485,292     |
| Loans, net of unearned income.....   | 15,815,263    | 15,236,612    | 14,128,064    | 13,330,973    | 12,885,180    |
| Deposits .....   | 15,832,606    | 15,481,221    | 14,585,545    | 13,747,113    | 12,867,663    |
| Short-term borrowings.....   | 785,923       | 533,564       | 395,727       | 323,772       | 832,839       |
| FHLB advances and long-term debt.....  | 977,573       | 1,034,444     | 959,142       | 1,023,972     | 965,601       |
| Shareholders' equity .....   | 2,255,764     | 2,193,863     | 2,100,634     | 2,026,883     | 2,071,640     |

(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:

|   | 2018                | 2017                | 2016                | 2015                | 2014                |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| (in thousands, except per share data and percentages)   |                     |                     |                     |                     |                     |
| <b>Return on average tangible equity</b>  |                     |                     |                     |                     |                     |
| Net income .....  | \$ 208,393          | \$ 171,753          | \$ 161,625          | \$ 149,502          | \$ 157,894          |
| Plus: Intangible amortization, net of tax .....   | —                   | —                   | —                   | 161                 | 818                 |
| Numerator .....   | <u>\$ 208,393</u>   | <u>\$ 171,753</u>   | <u>\$ 161,625</u>   | <u>\$ 149,663</u>   | <u>\$ 158,712</u>   |
| Average common shareholders' equity.....  | \$ 2,255,764        | \$ 2,193,863        | \$ 2,100,634        | \$ 2,026,883        | \$ 2,071,640        |
| Less: Average goodwill and intangible assets.....   | (531,556)           | (531,556)           | (531,556)           | (531,618)           | (532,425)           |
| Average tangible shareholders' equity (denominator)   | <u>\$ 1,724,208</u> | <u>\$ 1,662,307</u> | <u>\$ 1,569,078</u> | <u>\$ 1,495,265</u> | <u>\$ 1,539,215</u> |
| Return on average tangible equity .....   | <u>12.09%</u>       | <u>10.33%</u>       | <u>10.30%</u>       | <u>10.01%</u>       | <u>10.31%</u>       |
| <b>Efficiency ratio</b>   |                     |                     |                     |                     |                     |
| Non-interest expense .....  | \$ 546,104          | \$ 525,579          | \$ 489,519          | \$ 480,160          | \$ 459,246          |
| Less: Amortization of tax credit investments.....   | (11,449)            | (11,028)            | —                   | —                   | —                   |
| Less: Intangible amortization .....   | —                   | —                   | —                   | (247)               | (1,259)             |
| Less: Loss on redemption of trust preferred securities ...                                      | —                   | —                   | —                   | (5,626)             | —                   |
| Numerator .....   | <u>\$ 534,655</u>   | <u>\$ 514,551</u>   | <u>\$ 489,519</u>   | <u>\$ 474,287</u>   | <u>\$ 457,987</u>   |
| Net interest income (fully taxable equivalent) <sup>(1)</sup> .....                             | \$ 642,577          | \$ 598,565          | \$ 541,271          | \$ 518,464          | \$ 532,322          |
| Plus: Total Non-interest income .....   | 195,525             | 207,974             | 190,178             | 181,839             | 167,379             |
| Less: Investment securities gains, net .....  | (37)                | (9,071)             | (2,550)             | (9,066)             | (2,041)             |
| Denominator .....   | <u>\$ 838,065</u>   | <u>\$ 797,468</u>   | <u>\$ 728,899</u>   | <u>\$ 691,237</u>   | <u>\$ 697,660</u>   |
| Efficiency ratio .....  | <u>63.8%</u>        | <u>64.5%</u>        | <u>67.2%</u>        | <u>68.6%</u>        | <u>65.6%</u>        |
| <b>Non-performing assets to tangible equity and allowance for credit losses ("Texas Ratio")</b> |                     |                     |                     |                     |                     |
| Non-performing assets (numerator) .....   | \$ 150,196          | \$ 144,582          | \$ 144,453          | \$ 155,913          | \$ 150,504          |
| Tangible equity .....   | \$ 1,716,017        | \$ 1,698,301        | \$ 1,589,559        | \$ 1,510,338        | \$ 1,464,862        |
| Plus: Allowance for credit losses .....   | 169,410             | 176,084             | 171,325             | 171,412             | 185,931             |
| Tangible equity and allowance for credit losses (denominator).....                              | <u>\$ 1,885,427</u> | <u>\$ 1,874,385</u> | <u>\$ 1,760,884</u> | <u>\$ 1,681,750</u> | <u>\$ 1,650,793</u> |
| Texas Ratio .....   | <u>7.97%</u>        | <u>7.71%</u>        | <u>8.20%</u>        | <u>9.27%</u>        | <u>9.12%</u>        |

(1) Presented on a fully taxable equivalent basis, using a 21% federal tax rate for 2018 and 35% for 2014 through 2017.

## **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 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, results of operations and business. 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," "projects," the negative of these terms and other comparable terminology. These forward looking statements may include projections of, or guidance on, the Corporation's future financial performance, expected levels of future expenses, anticipated growth strategies, descriptions of new business initiatives and anticipated trends in the Corporation's business or financial results.

Forward-looking statements are neither historical facts, nor assurance of future performance. Instead, they are based on current beliefs, expectations and assumptions regarding the future of the Corporation's business, future plans and strategies, projections, anticipated events and trends, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of the Corporation's control, and actual results and financial condition may differ materially from those indicated in the forward-looking statements. Therefore, you should not unduly rely on any of these forward-looking statements. Any forward-looking statement is based only on information currently available and speaks only as of the date when made. 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 planned phasing out of LIBOR as a benchmark reference rate;
- 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, the assessment of fines and penalties, the imposition sanctions and the need to undertake remedial actions;
- the additional time, expense and investment required to comply with, and the restrictions on potential growth and investment activities resulting from, the existing enforcement order applicable to the Parent Company and its bank subsidiary, Lafayette Ambassador Bank, issued by the Federal Reserve Board 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 and in Congress, 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, and the impact of the significant implementation costs the Corporation expects to incur in connection with those consolidations;
- the Corporation's ability to achieve its growth plans;
- completed and potential acquisitions may affect costs and the Corporation may not be able to successfully integrate the acquired business or realize the anticipated benefits from such acquisitions;
- 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 four wholly owned banking subsidiaries as of December 31, 2018 that provide a full range of retail and commercial financial services in Pennsylvania, Delaware, Maryland, New Jersey and Virginia. During 2018, the Corporation consolidated two of its wholly owned banking subsidiaries into its lead bank, Fulton Bank N.A.

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 and off-balance sheet credit risks, non-interest expenses and income taxes.

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

|  | 2018       | 2017       |
|--|------------|------------|
| Net income (in thousands) .....                        | \$ 208,393 | \$ 171,753 |
| Diluted net income per share .....                     | \$ 1.18    | \$ 0.98    |
| Return on average assets .....                         | 1.03%      | 0.88%      |
| Return on average equity .....                         | 9.24%      | 7.83%      |
| Return on average tangible equity <sup>(1)</sup> ..... | 12.09%     | 10.33%     |
| Net interest margin <sup>(2)</sup> .....               | 3.40%      | 3.28%      |
| Efficiency ratio <sup>(1)</sup> .....                  | 63.8%      | 64.5%      |
| Non-performing assets to total assets .....            | 0.73%      | 0.72%      |
| Annualized net charge-offs to average loans .....      | 0.34%      | 0.12%      |

- (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 21% and 35% Federal tax rate and statutory interest expense disallowances for 2018 and 2017, respectively. 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, 2018:

- Net Income Per Share Growth - Diluted net income per share increased \$0.20, or 20.4%, to \$1.18 in 2018 compared to \$0.98 in 2017. This increase was due to an increase in net income of \$36.6 million, or 21.3%, partially offset by the impact of a 611,000, or 0.3%, increase in weighted average diluted shares outstanding in comparison to 2017. The increase in net income was driven by a \$55.1 million, or 9.6%, increase in net interest income and a \$38.1 million decrease in income tax expense, mainly as a result of tax reform legislation, partially offset by a \$23.6 million increase in the provision for credit losses, a \$3.4 million decrease in non-interest income, a \$9.0 million decrease in investment securities gains, and a \$20.5 million, or 3.9%, increase in non-interest expense.
- Net Interest Income Growth - The \$55.1 million increase in net interest income resulted from a 12 basis point increase in the net interest margin, reflecting the impact of multiple increases to the federal funds target rate ("Fed Funds Rate") by the Federal Reserve Board in 2017 and 2018, and growth in interest-earning assets.
  - Net Interest Margin - For the year ended December 31, 2018, the net interest margin increased 12 basis points, or 3.7%, in comparison to 2017, driven by a 29 basis point increase in yields on interest-earning assets, partially offset by a 22 basis point increase in the cost of interest-bearing liabilities.
  - Loan Growth - Average loans increased \$578.7 million, or 3.8%, in comparison to 2017, with notable increases in residential and commercial mortgages. The Corporation's loan growth occurred throughout all of its geographic markets.
  - Deposit Growth - Average deposits increased \$351.4 million, or 2.3%, in comparison to 2017. The increase was the result of growth in interest-bearing demand and savings accounts, partially offset by decreases in noninterest-bearing demand and time deposits. At December 31, 2018, the loan-to-deposit ratio was to 98.7%, as compared to 99.8% at December 31, 2017.
- Provision for Credit Losses - The provision for credit losses increased \$23.6 million, to \$46.9 million, for the year ended December 31, 2018. Included in the provision for credit losses for the year ended December 31, 2018 was a \$36.8 million provision related to fraud committed by a single, large commercial relationship ("Commercial Relationship"). Excluding this loss, the provision for credit losses would have been \$10.1 million, or \$13.2 million, lower than 2017.
- Non-Interest Income - Non-interest income, excluding securities gains, decreased \$3.4 million, or 1.7%, in comparison to 2017. Non-interest income in 2017 included a \$5.1 million litigation settlement gain. In addition, 2018 saw lower commercial loan interest rate swaps, overdraft fees and small business administration ("SBA") lending income. These decreases were partially offset by increases in investment management and trust services and merchant fees.
- Investment Securities Gains - Investment securities gains totaled \$37,000 in 2018, as compared to \$9.1 million in 2017. In 2017, 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. The Corporation no longer holds equity securities in its investment portfolio.

- Non-Interest Expense - Non-interest expense increased \$20.5 million, or 3.9%, in comparison to 2017, driven largely by higher salaries and employee benefits expense, other outside services and data processing and software expenses. Partially offsetting these increases was a reduction in other expenses, which included a \$4.8 million write-off of accumulated capital expenditures related to in-process technology initiatives in commercial banking in 2017.
- Income Taxes - Income tax expense for 2018 resulted in an effective tax rate ("ETR") of 10.5%, as compared to 26.7% for 2017. The decrease in the ETR was primarily a result of the reduction of the U.S. corporate income tax rate following the passage of the Tax Cuts and Jobs Act of 2017 ("Tax Act"), which lowered the U.S. corporate income tax rate from a top rate of 35% to a flat rate of 21%. Income tax expense for 2017 also included additional expense of \$15.6 million from the remeasurement of net deferred tax assets as a result of the Tax Act.

The ETR is generally lower than the federal statutory rate for each respective year due to tax-exempt interest income earned on loans, investments in tax-free municipal securities and investments in community development projects that generate tax credits under various federal programs.

### **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, 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. 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 losses 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.

- ***Proper measurement of allowance needs for pools of loans 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, home equity 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 in October of each year. The Corporation tests for impairment by first allocating its goodwill and other assets and liabilities, as necessary, to defined reporting units. A fair value is then determined for each reporting unit. If the fair values of the reporting units exceed their book values, no write-down of the recorded goodwill is necessary. If the fair values are less than the book values, an additional valuation procedure is necessary to assess the proper carrying value of the goodwill.

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

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 2018 compared to 2017 and 2016. Interest income and yields are presented on an FTE basis, using a 21% federal tax rate for 2018 and 35% for 2017 and 2016, as well as statutory interest expense disallowances. The discussion following this table is based on these tax-equivalent amounts.

|   | 2018            |                         |            | 2017            |                         |            | 2016            |                         |            |
|---|-----------------|-------------------------|------------|-----------------|-------------------------|------------|-----------------|-------------------------|------------|
|   | Average Balance | Interest <sup>(1)</sup> | Yield/Rate | Average Balance | Interest <sup>(1)</sup> | Yield/Rate | Average Balance | Interest <sup>(1)</sup> | Yield/Rate |
| (dollars in thousands)                              |                 |                         |            |                 |                         |            |                 |                         |            |
| <b>ASSETS</b>                                       |                 |                         |            |                 |                         |            |                 |                         |            |
| Interest-earning assets:                            |                 |                         |            |                 |                         |            |                 |                         |            |
| Loans, net of unearned income <sup>(2)</sup> .....  | \$15,815,263    | \$ 691,954              | 4.38%      | \$15,236,612    | \$ 620,803              | 4.07%      | \$14,128,064    | \$ 558,472              | 3.95%      |
| Taxable investment securities <sup>(3)</sup> .....  | 2,246,555       | 56,039                  | 2.49       | 2,132,426       | 47,029                  | 2.21       | 2,128,497       | 44,975                  | 2.11       |
| Tax-exempt investment securities <sup>(3)</sup> ..  | 416,119         | 15,285                  | 3.65       | 407,157         | 17,794                  | 4.37       | 327,098         | 14,865                  | 4.54       |
| Equity securities <sup>(3)</sup> .....              | 126             | 5                       | 3.97       | 8,331           | 500                     | 6.00       | 13,969          | 780                     | 5.58       |
| Total investment securities .....                   | 2,662,800       | 71,329                  | 2.68       | 2,547,914       | 65,323                  | 2.56       | 2,469,564       | 60,620                  | 2.45       |
| Loans held for sale .....                           | 22,970          | 1,159                   | 5.05       | 20,008          | 876                     | 4.38       | 19,697          | 728                     | 3.70       |
| Other interest-earning assets .....                 | 382,569         | 6,193                   | 1.62       | 451,015         | 5,066                   | 1.12       | 407,471         | 3,779                   | 0.93       |
| Total interest-earning assets .....                 | 18,883,602      | 770,635                 | 4.08       | 18,255,549      | 692,068                 | 3.79       | 17,024,796      | 623,599                 | 3.66       |
| Noninterest-earning assets:                         |                 |                         |            |                 |                         |            |                 |                         |            |
| Cash and due from banks .....                       | 104,595         |                         |            | 108,523         |                         |            | 104,772         |                         |            |
| Premises and equipment .....                        | 231,762         |                         |            | 219,960         |                         |            | 227,047         |                         |            |
| Other assets <sup>(3)</sup> .....                   | 1,123,857       |                         |            | 1,168,759       |                         |            | 1,179,437       |                         |            |
| Less: Allowance for loan losses .....               | (160,614)       |                         |            | (172,424)       |                         |            | (164,879)       |                         |            |
| Total Assets .....                                  | \$20,183,202    |                         |            | \$19,580,367    |                         |            | \$18,371,173    |                         |            |
| <b>LIABILITIES AND EQUITY</b>                       |                 |                         |            |                 |                         |            |                 |                         |            |
| Interest-bearing liabilities:                       |                 |                         |            |                 |                         |            |                 |                         |            |
| Demand deposits .....                               | \$ 4,063,929    | \$ 22,789               | 0.56%      | \$ 3,831,865    | \$ 12,976               | 0.34%      | \$ 3,552,886    | \$ 6,654                | 0.19%      |
| Savings deposits .....                              | 4,684,023       | 27,226                  | 0.58       | 4,468,205       | 13,477                  | 0.30       | 4,054,970       | 7,981                   | 0.20       |
| Brokered deposits .....                             | 121,863         | 2,480                   | 2.04       | 49,126          | 613                     | 1.25       | —               | —                       | —          |
| Time deposits .....                                 | 2,675,670       | 35,217                  | 1.32       | 2,721,724       | 30,726                  | 1.13       | 2,825,722       | 30,058                  | 1.06       |
| Total interest-bearing deposits .....               | 11,545,485      | 87,712                  | 0.76       | 11,070,920      | 57,792                  | 0.52       | 10,433,578      | 44,693                  | 0.43       |
| Short-term borrowings .....                         | 785,923         | 8,489                   | 1.07       | 533,564         | 2,779                   | 0.52       | 395,727         | 855                     | 0.21       |
| Long-term debt .....                                | 977,573         | 31,857                  | 3.26       | 1,034,444       | 32,932                  | 3.18       | 959,142         | 36,780                  | 3.83       |
| Total interest-bearing liabilities .....            | 13,308,981      | 128,058                 | 0.96       | 12,638,928      | 93,503                  | 0.74       | 11,788,447      | 82,328                  | 0.70       |
| Noninterest-bearing liabilities:                    |                 |                         |            |                 |                         |            |                 |                         |            |
| Demand deposits .....                               | 4,287,121       |                         |            | 4,410,301       |                         |            | 4,151,967       |                         |            |
| Other .....   | 331,336         |                         |            | 337,275         |                         |            | 330,125         |                         |            |
| Total Liabilities .....                             | 17,927,438      |                         |            | 17,386,504      |                         |            | 16,270,539      |                         |            |
| Shareholders' equity .....                          | 2,255,764       |                         |            | 2,193,863       |                         |            | 2,100,634       |                         |            |
| Total Liabilities and Shareholders' Equity .....    | \$20,183,202    |                         |            | \$19,580,367    |                         |            | \$18,371,173    |                         |            |
| Net interest income/net interest margin (FTE) ..... |                 | 642,577                 | 3.40%      |                 | 598,565                 | 3.28%      |                 | 541,271                 | 3.18%      |
| Tax equivalent adjustment .....                     |                 | (12,121)                |            |                 | (23,201)                |            |                 | (20,499)                |            |
| Net interest income .....                           |                 | \$ 630,456              |            |                 | \$ 575,364              |            |                 | \$ 520,772              |            |

(1) Includes dividends earned on equity securities.

(2) Average balance includes non-performing loans.

(3) Average balance 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 0.73%, 0.55% and 0.52% for the years ended December 31, 2018, 2017 and 2016 respectively.

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

|  | 2018 vs. 2017                        |                  |                  | 2017 vs. 2016                        |                  |                  |
|--|--------------------------------------|------------------|------------------|--------------------------------------|------------------|------------------|
|  | 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.....                  | \$ 24,166                            | \$ 46,985        | \$ 71,151        | \$ 44,822                            | \$ 17,509        | \$ 62,331        |
| Taxable investment securities .....    | 2,622                                | 6,388            | 9,010            | 83                                   | 1,971            | 2,054            |
| Tax-exempt investment securities ..... | 395                                  | (2,904)          | (2,509)          | 3,268                                | (339)            | 2,929            |
| Equity securities .....                | (368)                                | (127)            | (495)            | (309)                                | 29               | (280)            |
| Loans held for sale .....              | 139                                  | 144              | 283              | 12                                   | 136              | 148              |
| Other interest-earning assets .....    | (854)                                | 1,981            | 1,127            | 433                                  | 854              | 1,287            |
| <i>Total interest income</i> .....     | <u>\$ 26,100</u>                     | <u>\$ 52,467</u> | <u>\$ 78,567</u> | <u>\$ 48,309</u>                     | <u>\$ 20,160</u> | <u>\$ 68,469</u> |
| Interest expense on:                   |                                      |                  |                  |                                      |                  |                  |
| Demand deposits .....                  | \$ 842                               | \$ 8,971         | \$ 9,813         | \$ 562                               | \$ 5,760         | \$ 6,322         |
| Savings deposits .....                 | 683                                  | 13,066           | 13,749           | 884                                  | 4,612            | 5,496            |
| Brokered deposits.....                 | 1,311                                | 556              | 1,867            | 613                                  | —                | 613              |
| Time deposits .....                    | (527)                                | 5,018            | 4,491            | (781)                                | 1,449            | 668              |
| Short-term borrowings .....            | 1,746                                | 3,964            | 5,710            | 379                                  | 1,545            | 1,924            |
| Long-term debt.....                    | (1,839)                              | 764              | (1,075)          | 1,732                                | (5,580)          | (3,848)          |
| <i>Total interest expense</i> .....    | <u>\$ 2,216</u>                      | <u>\$ 32,339</u> | <u>\$ 34,555</u> | <u>\$ 3,389</u>                      | <u>\$ 7,786</u>  | <u>\$ 11,175</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 2018 to 2017

FTE net interest income increased \$44.0 million, or 7.4%, to \$642.6 million in 2018. Net interest margin increased 12 basis points to 3.40% in 2018 from 3.28% in 2017. Interest rate increases on both interest-earning assets and interest-bearing liabilities and the corresponding increases in FTE interest income and interest expense were largely the result of 25 basis point rate increases to the Fed Funds Rate in December of 2017 and March, June and September of 2018. The additional 25 basis point increase to the Fed Funds Rate in December of 2018 did not have a significant impact on the Corporation's financial results for the year ended December 31, 2018. The increases in the Fed Funds Rate resulted in corresponding increases to the index rates for the Corporation's variable and adjustable rate loans, primarily the prime rate and the London Interbank Offered Rate ("LIBOR").

As summarized above, FTE interest income increased \$52.5 million as the result of a 29 basis point increase in the yield on interest-earning assets, and increased \$26.1 million as the result of a \$628.1 million, or 3.4%, increase in average interest-earning assets, primarily loans. The average yield on the loan portfolio increased 31 basis points, to 4.38%, largely due to the aforementioned increases in the Fed Funds Rate and corresponding increases to loan index rates. All variable and certain adjustable rate loans repriced to higher rates during 2018, and yields on new loan originations exceeded the average yield on the loan portfolio. Adjustable rate loans reprice on dates specified in the loan agreements, which may be later than the date the Fed Funds Rate and related loan index rates increase or decrease. Therefore, the benefit of increases in index rates on adjustable rate loans may not be fully realized until future periods.

Interest expense increased \$34.6 million, with a 22 basis point increase in the rate on average interest-bearing liabilities contributing \$32.3 million to this increase. The rates on average interest-bearing demand deposits and savings accounts increased 22 basis points and 28 basis points, respectively. These rate increases contributed \$9.0 million and \$13.1 million to the increase in interest expense, respectively. In addition, the 19 basis point and 55 basis point increases in the rates on time deposits and short-term borrowings contributed \$5.0 million and \$4.0 million, respectively, to the increase in interest expense.

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

|  | 2018                   |              | 2017                |              | Increase (Decrease) in Balance |             |
|--|------------------------|--------------|---------------------|--------------|--------------------------------|-------------|
|  | Balance                | Yield        | Balance             | Yield        | \$                             | %           |
|  | (dollars in thousands) |              |                     |              |                                |             |
| Real estate - commercial mortgage .....              | \$ 6,314,349           | 4.38%        | \$ 6,161,731        | 4.04%        | \$ 152,618                     | 2.5%        |
| Commercial - industrial, financial and agricultural. | 4,314,584              | 4.32         | 4,236,810           | 4.01         | 77,774                         | 1.8         |
| Real estate - residential mortgage.....              | 2,085,258              | 3.93         | 1,779,270           | 3.80         | 305,988                        | 17.2        |
| Real estate - home equity .....                      | 1,493,620              | 4.91         | 1,582,705           | 4.38         | (89,085)                       | (5.6)       |
| Real estate - construction.....                      | 965,835                | 4.45         | 921,879             | 4.08         | 43,956                         | 4.8         |
| Consumer.....  | 361,186                | 4.54         | 304,162             | 4.99         | 57,024                         | 18.7        |
| Leasing .....  | 270,967                | 4.60         | 244,740             | 4.45         | 26,227                         | 10.7        |
| Other .....  | 9,464                  | N/A          | 5,315               | N/A          | 4,149                          | 78.1        |
| <i>Total</i> .....                                   | <b>\$ 15,815,263</b>   | <b>4.38%</b> | <b>\$15,236,612</b> | <b>4.07%</b> | <b>\$ 578,651</b>              | <b>3.8%</b> |

N/A - Not applicable

Average loans increased \$578.7 million, or 3.8%, which contributed \$24.2 million to the increase in FTE interest income. In addition, the average yield on the loan portfolio increased 31 basis points, contributing \$47.0 million to the increase in FTE interest income. As mentioned above, 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 LIBOR.

The increase in average loan balances was across most loan categories, driven largely by growth in the residential mortgage and commercial mortgage portfolios. The \$306.0 million, or 17.2%, increase in residential mortgages was realized across all geographic markets, with the most significant increases occurring in Maryland and Virginia. This growth was, in part, related to new product offerings and marketing efforts targeting specific customer segments. The \$152.6 million, or 2.5%, growth in commercial mortgages occurred in both owner-occupied and investment property types and was realized in most geographic markets. The growth in commercial, consumer and leasing balances occurred across most geographic markets.

Average investment securities increased \$114.9 million, or 4.5%, in comparison to 2017, which contributed \$2.6 million to the increase in FTE interest income. The average yield on investment securities increased 12 basis points, contributing \$3.4 million to the increase in FTE interest income. Other interest-earning assets decreased \$68.4 million, or 15.2%, reflecting lower balances on deposit with the Federal Reserve Bank ("FRB"). The yield on other interest-earning assets increased 50 basis points in comparison to 2017, as a result of the Fed Funds Rate increases, resulting in a \$1.1 million increase in FTE interest income.

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

|   | 2018                   |              | 2017                |              | (Decrease) Increase in Balance |              |
|---|------------------------|--------------|---------------------|--------------|--------------------------------|--------------|
|   | Balance                | Rate         | Balance             | Rate         | \$                             | %            |
|   | (dollars in thousands) |              |                     |              |                                |              |
| Noninterest-bearing demand .....        | \$ 4,287,121           | —%           | \$ 4,410,301        | —%           | \$ (123,180)                   | (2.8)%       |
| Interest-bearing demand.....            | 4,063,929              | 0.56         | 3,831,865           | 0.34         | 232,064                        | 6.1          |
| Savings and money market accounts ..... | 4,684,023              | 0.58         | 4,468,205           | 0.30         | 215,818                        | 4.8          |
| <i>Total demand and savings</i> .....   | <b>13,035,073</b>      | <b>0.38</b>  | <b>12,710,371</b>   | <b>0.12</b>  | <b>324,702</b>                 | <b>2.6</b>   |
| Brokered deposits.....                  | 121,863                | 2.04         | 49,126              | 1.25         | 72,737                         | 148.1        |
| Time deposits .....                     | 2,675,670              | 1.32         | 2,721,724           | 1.13         | (46,054)                       | (1.7)        |
| <i>Total deposits</i> .....             | <b>\$ 15,832,606</b>   | <b>0.55%</b> | <b>\$15,481,221</b> | <b>0.37%</b> | <b>\$ 351,385</b>              | <b>2.3 %</b> |

Average interest-bearing deposits contributed \$29.9 million to the increase in interest expense, increasing \$474.6 million, or 4.3%, in comparison to 2017. The average cost of interest-bearing deposits increased 24 basis points to 0.76% in 2018 from 0.52% in 2017, due to increases in the rates on all types of interest-bearing deposits.

The \$324.7 million, or 2.6%, increase in average total demand and savings account balances was primarily due to a \$388.4 million, or 6.5%, increase in personal account balances, a \$147.0 million increase in other account balances partially offset by decreases

of \$173.9 million, or 3.9%, and \$36.8 million, or 1.9%, in business account balances and state and municipal account balances, respectively.

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 ("Third-Party Deposit Sweep Arrangement"). The average balance in the omnibus accounts increased \$72.7 million, to \$121.9 million and is shown as "brokered deposits" in the above table. This source of funding is considered to be both geographically diverse and considered to be a stable source of funding, with balances in the omnibus deposit accounts bearing interest at a rate based on the Fed Funds Rate.

Total average borrowings increased \$195.5 million, or 12.5%, while the total average cost of these funds increased one basis point to 2.29%. The increase in average short-term borrowings reflects the need for additional funding to support average loan growth, which outpaced increases in average deposits. Average borrowings and interest rates, by type, are summarized in the following table:

|   | 2018                |              | 2017         |       | (Decrease) Increase in Balance |         |
|---|---------------------|--------------|--------------|-------|--------------------------------|---------|
|   | Balance             | Rate         | Balance      | Rate  | \$                             | %       |
| (dollars in thousands)                        |                     |              |              |       |                                |         |
| Short-term borrowings:                        |                     |              |              |       |                                |         |
| Customer repurchase agreements.....           | \$ 137,198          | 0.20%        | \$ 188,769   | 0.12% | \$ (51,571)                    | (27.3)% |
| Customer short-term promissory notes .....    | 309,470             | 0.60         | 108,649      | 0.31  | 200,821                        | 184.8   |
| <i>Total short-term customer funding.....</i> | <b>446,668</b>      | <b>0.48</b>  | 297,418      | 0.19  | 149,250                        | 50.2    |
| Federal funds purchased.....                  | 229,715             | 1.70         | 163,102      | 0.92  | 66,613                         | 40.8    |
| Short-term FHLB advances <sup>(1)</sup> ..... | 109,540             | 2.20         | 73,044       | 0.94  | 36,496                         | 50.0    |
| <i>Total short-term borrowings .....</i>      | <b>785,923</b>      | <b>1.07</b>  | 533,564      | 0.52  | 252,359                        | 47.3    |
| Long-term debt:                               |                     |              |              |       |                                |         |
| FHLB advances .....                           | 590,948             | 2.46         | 640,737      | 2.31  | (49,789)                       | (7.8)   |
| Other long-term debt.....                     | 386,625             | 4.47         | 393,707      | 4.61  | (7,082)                        | (1.8)   |
| <i>Total long-term debt.....</i>              | <b>977,573</b>      | <b>3.26</b>  | 1,034,444    | 3.18  | (56,871)                       | (5.5)   |
| <i>Total.....</i>                             | <b>\$ 1,763,496</b> | <b>2.29%</b> | \$ 1,568,008 | 2.28% | \$ 195,488                     | 12.5 %  |

(1) Represents Federal Home Loan Bank ("FHLB") advances with an original maturity term of less than one year.

Total average short-term borrowings increased \$252.4 million, or 47.3%, due to an increase in average customer short-term promissory notes, federal funds purchased and short-term FHLB advances. The cost of average short-term borrowings increased 55 basis points to 1.07% in 2018, largely due to the Fed Funds Rate increases.

Average long-term debt decreased \$56.9 million due mainly to the \$49.8 million decrease in FHLB advances. The average rate on long-term debt increased 8 basis points, the net result of a 15 basis point increase on the rate of the FHLB advances, largely due to the Fed Funds Rate increases, and a 14 basis point decrease in other long-term debt.

#### 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 previously, 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 Fed 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 - home equity .....                      | 1,582,705              | 4.38         | 1,651,112            | 4.08         | (68,407)                       | (4.1)       |
| Real estate - residential mortgage.....              | 1,779,270              | 3.80         | 1,464,744            | 3.77         | 314,526                        | 21.5        |
| 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 .....  | 244,740                | 4.45         | 190,675              | 4.73         | 54,065                         | 28.4        |
| Leasing and other .....                              | 5,315                  | N/A          | 3,009                | N/A          | 2,306                          | 76.6        |
| <i>Total</i> .....                                   | <b>\$ 15,236,612</b>   | <b>4.07%</b> | <b>\$ 14,128,064</b> | <b>3.95%</b> | <b>\$1,108,548</b>             | <b>7.8%</b> |

N/A - Not applicable

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 in 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 and 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> .....  | <u>12,710,371</u>      | <u>0.12</u>  | <u>11,759,823</u>    | <u>0.12</u>  | <u>950,548</u>                 | <u>8.1</u>  |
| 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> .....            | <u>\$ 15,481,221</u>   | <u>0.37%</u> | <u>\$ 14,585,545</u> | <u>0.31%</u> | <u>\$ 895,676</u>              | <u>6.1%</u> |

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 Fed 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) |              |                     |              |                     |              |
| <b>Short-term borrowings:</b>                  |                        |              |                     |              |                     |              |
| 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> ..... | <u>297,418</u>         | <u>0.19</u>  | <u>257,202</u>      | <u>0.09</u>  | <u>40,216</u>       | <u>15.6</u>  |
| Federal funds purchased.....                   | 163,102                | 0.92         | 127,604             | 0.45         | 35,498              | 27.8         |
| Short-term FHLB advances <sup>(1)</sup> .....  | 73,044                 | 0.94         | 10,921              | 0.43         | 62,123              | N/M          |
| <i>Total short-term borrowings</i> .....       | <u>533,564</u>         | <u>0.52</u>  | <u>395,727</u>      | <u>0.21</u>  | <u>137,837</u>      | <u>34.8</u>  |
| <b>Long-term debt:</b>                         |                        |              |                     |              |                     |              |
| 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> .....              | <u>1,034,444</u>       | <u>3.18</u>  | <u>959,142</u>      | <u>3.83</u>  | <u>75,302</u>       | <u>7.9</u>   |
| <i>Total borrowings</i> .....                  | <u>\$ 1,568,008</u>    | <u>2.28%</u> | <u>\$ 1,354,869</u> | <u>2.78%</u> | <u>\$ 213,139</u>   | <u>15.7%</u> |

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 Fed Funds 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%.

### **Provision for Credit Losses**

The provision for credit losses was \$46.9 million in 2018, an increase of \$23.6 million in comparison to 2017. The increase in the provision for credit losses in 2018 compared to 2017 was primarily driven by the \$36.8 million provision for credit losses for the customer fraud-related Commercial Relationship. See additional details under "Provision and Allowance for Credit Losses" in the "Financial Condition" section below. The provision for credit losses for 2017 was \$23.3 million, an increase of \$10.1 million in comparison to 2016. In 2017 the increase 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 2018 to 2017

### Non-Interest Income

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

|   | 2018              | 2017       | Increase (Decrease)    |        |
|---|-------------------|------------|------------------------|--------|
|   |                   |            | \$                     | %      |
|   |                   |            | (dollars in thousands) |        |
| Investment management and trust services .....            | \$ 52,148         | \$ 49,249  | \$ 2,899               | 5.9 %  |
| <u>Other service charges and fees:</u>                    |                   |            |                        |        |
| Merchant fees .....                                       | 18,407            | 16,845     | 1,562                  | 9.3    |
| Debit card income.....                                    | 12,712            | 11,905     | 807                    | 6.8    |
| Commercial loan interest rate swap fees .....             | 9,831             | 11,694     | (1,863)                | (15.9) |
| Letter of credit fees.....                                | 3,932             | 4,403      | (471)                  | (10.7) |
| Foreign exchange income .....                             | 2,150             | 1,759      | 391                    | 22.2   |
| Other .....   | 6,745             | 6,253      | 492                    | 7.9    |
| <i>Total other service charges and fees .....</i>         | <b>53,777</b>     | 52,859     | 918                    | 1.7    |
| <u>Service charges on deposit accounts:</u>               |                   |            |                        |        |
| Overdraft fees .....                                      | 20,836            | 22,569     | (1,733)                | (7.7)  |
| Cash management fees .....                                | 17,581            | 14,444     | 3,137                  | 21.7   |
| Other .....   | 10,472            | 13,993     | (3,521)                | (25.2) |
| <i>Total service charges on deposit accounts .....</i>    | <b>48,889</b>     | 51,006     | (2,117)                | (4.2)  |
| <u>Mortgage banking income:</u>                           |                   |            |                        |        |
| Gain on sales of mortgage loans.....                      | 13,021            | 13,036     | (15)                   | (0.1)  |
| Mortgage servicing income .....                           | 6,005             | 6,892      | (887)                  | (12.9) |
| <i>Total mortgage banking income .....</i>                | <b>19,026</b>     | 19,928     | (902)                  | (4.5)  |
| <u>Other income:</u>                                      |                   |            |                        |        |
| Credit card income .....                                  | 11,803            | 10,920     | 883                    | 8.1    |
| SBA lending income.....                                   | 2,474             | 3,511      | (1,037)                | (29.5) |
| Other income .....  | 7,371             | 11,430     | (4,059)                | (35.5) |
| <i>Total other income .....</i>                           | <b>21,648</b>     | 25,861     | (4,213)                | (16.3) |
| <i>Total, excluding investment securities gains .....</i> | <b>195,488</b>    | 198,903    | (3,415)                | (1.7)  |
| Investment securities gains.....                          | 37                | 9,071      | (9,034)                | N/M    |
| <i>Total.....</i>   | <b>\$ 195,525</b> | \$ 207,974 | \$ (12,449)            | (6.0)% |

N/M - Not meaningful

Excluding investment securities gains, non-interest income decreased \$3.4 million, or 1.7%, for the year ended December 31, 2018, as compared to the same period in 2017.

Investment management and trust services income increased \$2.9 million, or 5.9%, with growth in both trust commissions and brokerage income, due to overall market performance and continued focus on asset gathering.

Other service charges and fees increased \$918,000, or 1.7%, primarily due to increases in merchant fees and debit card income, partially offset by a decrease in commercial loan interest rate swap fees, resulting from lower new commercial loan originations in 2018, and lower letter of credit fees.

Service charges on deposit accounts decreased \$2.1 million, or 4.2%, with decreases in overdraft fees and other service charges being partially offset by an increase in cash management fees. The increase in cash management fees and the decrease in other service charges largely reflects a classification change, effective in the first quarter of 2018, of certain types of deposit service charges. The decrease in overdraft fees reflects a processing change related to point-of-sale debit card transactions, which had the effect of decreasing the overall volume of overdraft charges to customers.

Mortgage servicing income decreased \$887,000, or 12.9%, because 2017 included a \$1.3 million reduction to the MSR valuation allowance, recorded as an increase to mortgage servicing income. See Note 6, "Mortgage Servicing Rights," in the Notes to Consolidated Financial Statements for additional details. This increase was partially offset by lower MSR amortization expense in 2018 because prepayments slowed as mortgage rates increased.

Other income decreased \$4.2 million, or 16.3%, due to a \$1.0 million, or 29.5%, decrease in SBA lending income and a \$4.1 million, or 35.5%, decrease in other income, as 2017 included a \$5.1 million litigation settlement gain. Partially offsetting these decreases was an \$883,000, or 8.1%, increase in credit card income as a result of higher transaction volumes.

Investment securities gains decreased \$9.0 million, as 2017 included gains on sales of financial institution common stocks. 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:

|   | 2018              | 2017              | Increase (Decrease)    |             |
|---|-------------------|-------------------|------------------------|-------------|
|   |                   |                   | \$                     | %           |
|   |                   |                   | (dollars in thousands) |             |
| Salaries and employee benefits.....         | \$ 303,202        | \$ 290,130        | \$ 13,072              | 4.5%        |
| Net occupancy expense.....                  | 51,678            | 49,708            | 1,970                  | 4.0         |
| Data processing and software .....          | 41,286            | 38,735            | 2,551                  | 6.6         |
| Other outside services.....                 | 33,758            | 27,501            | 6,257                  | 22.8        |
| Professional fees .....                     | 14,161            | 12,688            | 1,473                  | 11.6        |
| Equipment expense.....                      | 13,243            | 12,935            | 308                    | 2.4         |
| Amortization of tax credit investments..... | 11,449            | 11,028            | 421                    | 3.8         |
| FDIC insurance expense .....                | 10,993            | 11,049            | (56)                   | (0.5)       |
| State taxes .....                           | 9,590             | 10,051            | (461)                  | (4.6)       |
| Other .....                                 | 56,744            | 61,754            | (5,010)                | (8.1)       |
| <i>Total</i> .....                          | <b>\$ 546,104</b> | <b>\$ 525,579</b> | <b>\$ 20,525</b>       | <b>3.9%</b> |

The \$13.1 million, or 4.5%, increase in salaries and employee benefits expense was driven by a \$13.3 million, or 5.4%, increase in salaries, reflecting annual merit increases and higher incentive and stock compensation. In addition, expenses for stock compensation and certain incentive compensation plans were higher in 2018. Benefits expenses decreased slightly, as severance costs were more than offset by lower defined benefit pension expense, as a result of interest rate increases, and lower health insurance costs, as a result of more favorable claims experience.

Net occupancy expenses increased \$2.0 million, or 4.0%, primarily due to higher snow removal and utilities costs in the first half of 2018, and additional depreciation and amortization related to branch renovations.

Data processing and software expense increased \$2.6 million, or 6.6%, reflecting higher transaction volumes, new processing platforms and contractual increases in fees and charges. In addition, 2017 expense was lower as a result of renegotiated contracts.

Other outside services increased \$6.3 million, or 22.8%, largely due to consulting services related to various banking and technology initiatives, as well as costs associated with merging subsidiary bank charters.

Professional fees increased \$1.5 million, or 11.6%, driven by higher legal expenses. The Corporation incurs fees related to various legal matters in the normal course of business. These fees can fluctuate based on the timing and extent of these matters.

Other expenses decreased \$5.0 million, or 8.1%, due to a \$2.3 million decrease in write-offs of accumulated capital expenditures related to in-process technology initiatives in commercial banking as well as a decrease in operating risk loss and other real estate expenses.

Comparison of 2017 to 2016

Non-Interest Income

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

|  | 2017                   | 2016              | Increase (Decrease) |              |
|--|------------------------|-------------------|---------------------|--------------|
|  |                        |                   | \$                  | %            |
|  | (dollars in thousands) |                   |                     |              |
| Investment management and trust services.....            | \$ 49,249              | \$ 45,270         | \$ 3,979            | 8.8%         |
| <u>Other service charges and fees:</u>                   |                        |                   |                     |              |
| Merchant fees.....                                       | 16,845                 | 16,136            | 709                 | 4.4          |
| Commercial loan interest rate swap fees.....             | 11,694                 | 11,560            | 134                 | 1.2          |
| Debit card income.....                                   | 11,905                 | 11,236            | 669                 | 6.0          |
| Letter of credit fees.....                               | 4,403                  | 4,504             | (101)               | (2.2)        |
| Foreign currency processing income.....                  | 1,759                  | 1,555             | 204                 | 13.1         |
| Other.....   | 6,253                  | 6,482             | (229)               | (3.5)        |
| <i>Total other service charges and fees.....</i>         | <i>52,859</i>          | <i>51,473</i>     | <i>1,386</i>        | <i>2.7</i>   |
| <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>    | <i>51,006</i>          | <i>51,346</i>     | <i>(340)</i>        | <i>(0.7)</i> |
| <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>                | <i>19,928</i>          | <i>19,415</i>     | <i>513</i>          | <i>2.6</i>   |
| <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               | 44.8         |
| Other income.....  | 11,430                 | 7,447             | 3,983               | 53.5         |
| <i>Total other income.....</i>                           | <i>25,861</i>          | <i>20,124</i>     | <i>5,737</i>        | <i>28.5</i>  |
| <i>Total, excluding investment securities gains.....</i> | <i>198,903</i>         | <i>187,628</i>    | <i>11,275</i>       | <i>6.0</i>   |
| Investment securities gains.....                         | 9,071                  | 2,550             | 6,521               | N/M          |
| <i>Total.....</i>  | <i>\$ 207,974</i>      | <i>\$ 190,178</i> | <i>\$ 17,796</i>    | <i>9.4%</i>  |

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.

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.

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.

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, recorded as an increase to mortgage servicing income, as compared to net increases to the valuation allowance of \$1.3 million in 2016, recorded as a reduction 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:

|   | 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 expense.....                 | 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, was classified in non-interest expense in 2017, 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.

### **Income Taxes**

Income tax expense for the year ended December 31, 2018 was \$24.6 million, a \$38.1 million, or 60.8%, decrease from \$62.7 million for the same period in 2017. This decrease was primarily a result of the reduction of the U.S. corporate income tax rate following the passage of the Tax Act, which lowered the U.S. corporate income tax rate from a top rate of 35% to a flat rate of 21% starting in 2018. In addition, the Corporation recorded a \$15.6 million charge to income tax expense in 2017 relating to the revaluation of its net deferred tax assets. The Corporation's ETR was 10.5% for the year ended December 31, 2018, as compared to 26.7% in the same period of 2017. The decrease in the ETR was primarily a result of the reduction of the U.S. corporate income tax rate and the recording of a \$15.6 million revaluation charge in 2017 following the passage of the Tax Act as described above. The ETR is generally lower than the federal statutory rate for each respective year due to tax-exempt interest income earned on loans, investments in tax-free municipal securities and investments in community development projects that generate tax credits under various federal programs.

The ETR in any period may be positively or negatively affected by adjustments that are required to be reported in the specific quarter of resolution or the impacts of legislated changes in Federal or state taxes.

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) |              |
|---|------------------------|----------------------|---------------------|--------------|
|   | 2018                   | 2017                 | \$                  | %            |
|   | (dollars in thousands) |                      |                     |              |
| <b>Assets</b>   |                        |                      |                     |              |
| Cash and due from banks .....                           | \$ 103,436             | \$ 108,291           | \$ (4,855)          | (4.5)%       |
| Other interest-earning assets.....                      | 421,534                | 354,566              | 66,968              | 18.9         |
| Loans held for sale.....                                | 27,099                 | 31,530               | (4,431)             | (14.1)       |
| Investment securities .....                             | 2,686,973              | 2,547,956            | 139,017             | 5.5          |
| Loans, net of allowance .....                           | 16,005,263             | 15,598,337           | 406,926             | 2.6          |
| Premises and equipment .....                            | 234,529                | 222,802              | 11,727              | 5.3          |
| Goodwill and intangible assets.....                     | 531,556                | 531,556              | —                   | —            |
| Other assets.....                                       | 671,762                | 641,867              | 29,895              | 4.7          |
| <i>Total Assets</i> .....                               | <b>\$ 20,682,152</b>   | <b>\$ 20,036,905</b> | <b>\$ 645,247</b>   | <b>3.2 %</b> |
| <b>Liabilities and Shareholders' Equity</b>             |                        |                      |                     |              |
| Deposits .....  | \$ 16,376,159          | \$ 15,797,532        | \$ 578,627          | 3.7 %        |
| Short-term borrowings.....                              | 754,777                | 617,524              | 137,253             | 22.2         |
| Long-term debt .....                                    | 992,279                | 1,038,346            | (46,067)            | (4.4)        |
| Other liabilities .....                                 | 311,364                | 353,646              | (42,282)            | (12.0)       |
| <i>Total Liabilities</i> .....                          | <b>18,434,579</b>      | <b>17,807,048</b>    | <b>627,531</b>      | <b>3.5</b>   |
| <i>Total Shareholders' Equity</i> .....                 | <b>2,247,573</b>       | <b>2,229,857</b>     | <b>17,716</b>       | <b>0.8</b>   |
| <i>Total Liabilities and Shareholders' Equity</i> ..... | <b>\$ 20,682,152</b>   | <b>\$ 20,036,905</b> | <b>\$ 645,247</b>   | <b>3.2 %</b> |

### **Other Interest-Earning Assets**

The \$67.0 million, or 18.9%, 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, reflecting the Corporation's overall funding position at the end of 2018 and 2017.



## Investment Securities

The following table presents the carrying amount of investment securities as of December 31:

|   | <u>2018</u>         | <u>2017</u>         |
|---|---------------------|---------------------|
|   | (in thousands)      |                     |
| <b>Available for Sale</b>                         |                     |                     |
| U.S. Government sponsored agency securities ..... | \$ 31,632           | \$ 5,938            |
| State and municipal securities .....              | 279,095             | 408,949             |
| Corporate debt securities .....                   | 109,533             | 97,309              |
| Collateralized mortgage obligations .....         | 832,080             | 602,623             |
| Residential mortgage-backed securities .....      | 463,344             | 1,120,796           |
| Commercial mortgage-backed securities .....       | 261,616             | 212,755             |
| Auction rate securities .....                     | 102,994             | 98,668              |
| <i>Total debt securities</i> .....                | <u>2,080,294</u>    | <u>2,547,038</u>    |
| Equity securities .....                           | —                   | 918                 |
| <i>Total available for sale securities</i> .....  | <u>\$ 2,080,294</u> | <u>\$ 2,547,956</u> |
| <b>Held to Maturity</b>                           |                     |                     |
| State and municipal securities .....              | \$ 156,134          | \$ —                |
| Residential mortgage-backed securities .....      | 450,545             | —                   |
| <i>Total held to maturity securities</i> .....    | <u>\$ 606,679</u>   | <u>\$ —</u>         |
| <i>Total investment securities</i> .....          | <u>\$ 2,686,973</u> | <u>\$ 2,547,956</u> |

Total available for sale investment securities decreased \$467.7 million, or 18.4%, to \$2.1 billion at December 31, 2018. On August 1, 2018, the Corporation transferred debt securities totaling \$641.7 million from the available for sale classification to the held to maturity classification. These securities consisted of \$485.3 million and \$156.4 million of residential mortgage-backed securities and state and municipal securities, respectively. The transfer was accounted for at estimated fair value. These securities were transferred as a result of the Corporation's positive intent and ability to hold these securities to maturity.

Total investment securities increased \$139.0 million, or 5.5%, to \$2.7 billion at December 31, 2018. U.S. Government sponsored agency securities increased \$25.7 million, collateralized mortgage obligations increased \$229.5 million and commercial mortgage-backed securities increased \$48.9 million. Cash flows from maturities and repayments of residential mortgage-backed securities were reinvested in these investment categories to diversify the portfolio into securities with lower expected term extension risk, should rates continue to increase.

## Loans

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

|   | December 31,           |               |               |               |               | Increase (Decrease)<br>(2018 vs. 2017) |       |
|---|------------------------|---------------|---------------|---------------|---------------|--|-------|
|   | 2018                   | 2017          | 2016          | 2015          | 2014          | \$                                     | %     |
|   | (dollars in thousands) |               |               |               |               |  |       |
| Real estate – commercial mortgage.....                      | \$ 6,434,285           | \$ 6,364,804  | \$ 6,018,582  | \$ 5,462,330  | \$ 5,197,155  | \$ 69,481                              | 1.1%  |
| Commercial – industrial, financial and<br>agricultural..... | 4,404,548              | 4,300,297     | 4,087,486     | 4,088,962     | 3,725,567     | 104,251                                | 2.4   |
| Real estate – residential mortgage.....                     | 2,251,044              | 1,954,711     | 1,601,994     | 1,376,160     | 1,377,068     | 296,333                                | 15.2  |
| Real estate – home equity                                   | 1,452,137              | 1,559,719     | 1,625,115     | 1,684,439     | 1,736,688     | (107,582)                              | (6.9) |
| Real estate – construction.....                             | 916,599                | 1,006,935     | 843,649       | 799,988       | 690,601       | (90,336)                               | (9.0) |
| Consumer.....   | 419,186                | 313,783       | 291,470       | 268,588       | 265,431       | 105,403                                | 33.6  |
| Leasing, other and overdrafts.....                          | 314,640                | 295,669       | 250,366       | 173,651       | 131,583       | 18,971                                 | 6.4   |
| Loans, gross of unearned income.....                        | 16,192,439             | 15,795,918    | 14,718,662    | 13,854,118    | 13,124,093    | 396,521                                | 2.5   |
| Unearned income.....  | (26,639)               | (27,671)      | (19,390)      | (15,516)      | (12,377)      | 1,032                                  | (3.7) |
| Loans, net of unearned income.....                          | \$ 16,165,800          | \$ 15,768,247 | \$ 14,699,272 | \$ 13,838,602 | \$ 13,111,716 | \$ 397,553                             | 2.5%  |

Total loans, net of unearned income, increased \$397.6 million, or 2.5%, as of December 31, 2018 compared to December 31, 2017. During 2018, several items partially offset loan growth, particularly in the commercial loan portfolios, including a decline in line borrowings and certain criticized and classified credits being repaid. In addition, there were higher than expected prepayments, primarily as a result of intensified competition and pricing pressure during 2018 in many of the markets in which the Corporation operates.

Residential mortgages increased \$296.3 million, or 15.2%, across all geographic markets, but primarily in Virginia and New Jersey. Consumer loans increased \$105.4 million, or 33.6%, largely in Pennsylvania and New Jersey. Commercial loans increased a net total of \$104.3 million, or 2.4%, across all markets, while commercial mortgage loans increased \$69.5 million, or 1.1%, primarily in Maryland. Home equity loans decreased \$107.6 million, or 6.9%, across all geographic markets and construction loans decreased \$90.3 million, or 9.0%, also across all geographic markets except for Virginia.

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, 2018, approximately \$7.4 billion, or 45.5%, 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 \$55.0 million as of December 31, 2018. 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, 2018, the Corporation had 150 relationships with total borrowing commitments between \$20.0 million and \$55.0 million.

The following table summarizes the industry concentrations within the commercial mortgage and industrial, financial and agricultural loan portfolios as of December 31:

|  | <b>2018</b>   | 2017   |
|--|---------------|--------|
| Real estate <sup>(1)</sup> .....                       | <b>35.9%</b>  | 35.7%  |
| Health care .....                                      | <b>7.8</b>    | 7.8    |
| Agriculture .....                                      | <b>7.3</b>    | 7.4    |
| Construction <sup>(2)</sup> .....                      | <b>5.7</b>    | 6.0    |
| Manufacturing .....                                    | <b>5.5</b>    | 5.2    |
| Educational services .....                             | <b>4.6</b>    | 4.5    |
| Retail .....   | <b>4.6</b>    | 5.9    |
| Other services (except public administration) .....    | <b>4.5</b>    | 4.1    |
| Accommodation and food services .....                  | <b>3.7</b>    | 3.7    |
| Wholesale Trade .....                                  | <b>3.5</b>    | 3.4    |
| Professional, scientific, and technical services ..... | <b>2.8</b>    | 2.9    |
| Public administration .....                            | <b>2.3</b>    | 2.4    |
| Arts, entertainment, and recreation .....              | <b>2.3</b>    | 2.0    |
| Transportation and warehousing .....                   | <b>1.3</b>    | 1.1    |
| Other .....  | <b>8.2</b>    | 7.9    |
| Total .....  | <b>100.0%</b> | 100.0% |

(1) 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.

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

Commercial loans and commercial mortgage loans also include shared national credits, which are participations in loans or loan commitments of at least \$100 million that are shared by three or more banks. Effective January 1, 2018, the federal banking agencies increased the threshold for defining a shared national credit to \$100 million from \$20 million. The Corporation only participates in shared national credits to borrowers located in its geographic markets and these are subject to the Corporation's standard underwriting policies. Below is a summary of the Corporation's outstanding purchased shared national credits as of December 31:

|   | <b>2018</b>      | 2017       |
|---|------------------|------------|
|   | (in thousands)   |            |
| Commercial - industrial, financial and agricultural ..... | <b>\$ 67,493</b> | \$ 156,277 |
| Real estate - commercial mortgage .....                   | —                | 110,658    |
| Total .....   | <b>\$ 67,493</b> | \$ 266,935 |

Total shared national credits decreased \$199.4 million, or 74.7%, in comparison to 2017 as a result of the new threshold. As of December 31, 2018, none of the shared national credits were past due.

## 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 credit loss experience follows:

|   | 2018                   | 2017          | 2016          | 2015          | 2014          |
|---|------------------------|---------------|---------------|---------------|---------------|
|   | (dollars in thousands) |               |               |               |               |
| Loans, net of unearned income outstanding at end of year.....   | <b>\$ 16,165,800</b>   | \$ 15,768,247 | \$ 14,699,272 | \$ 13,838,602 | \$ 13,111,716 |
| Average balance of loans, net of unearned income.....   | <b>\$ 15,815,263</b>   | \$ 15,236,612 | \$ 14,128,064 | \$ 13,330,973 | \$ 12,885,180 |
| Balance of allowance for credit losses at beginning of year.....  | <b>\$ 176,084</b>      | \$ 171,325    | \$ 171,412    | \$ 185,931    | \$ 204,917    |
| Loans charged off:  |                        |               |               |               |               |
| Commercial – industrial, financial and agricultural .....   | <b>52,441</b>          | 19,067        | 15,276        | 15,639        | 24,516        |
| Real estate - home equity and consumer.....   | <b>6,127</b>           | 4,567         | 7,712         | 5,831         | 7,811         |
| Leasing, other and overdrafts.....  | <b>2,521</b>           | 3,035         | 3,815         | 2,656         | 2,135         |
| Real estate – commercial mortgage .....   | <b>2,045</b>           | 2,169         | 3,580         | 4,218         | 6,004         |
| Real estate – residential mortgage .....  | <b>1,574</b>           | 687           | 2,326         | 3,612         | 2,918         |
| Real estate – construction .....  | <b>1,368</b>           | 3,765         | 1,218         | 201           | 1,209         |
| <i>Total loans charged off</i> .....  | <b>66,076</b>          | 33,290        | 33,927        | 32,157        | 44,593        |
| Recoveries of loans previously charged off:   |                        |               |               |               |               |
| Commercial – industrial, financial and agricultural .....   | <b>4,994</b>           | 7,771         | 8,981         | 5,264         | 4,256         |
| Real estate - home equity and consumer.....   | <b>2,393</b>           | 1,969         | 2,466         | 2,492         | 2,347         |
| Real estate – construction .....  | <b>1,829</b>           | 1,582         | 3,924         | 2,824         | 3,177         |
| Real estate – commercial mortgage .....   | <b>1,622</b>           | 1,668         | 3,373         | 2,801         | 1,960         |
| Leasing, other and overdrafts.....  | <b>1,037</b>           | 968           | 842           | 685           | 916           |
| Real estate – residential mortgage .....  | <b>620</b>             | 786           | 1,072         | 1,322         | 451           |
| <i>Total recoveries</i> .....   | <b>12,495</b>          | 14,744        | 20,658        | 15,388        | 13,107        |
| Net loans charged off.....  | <b>53,581</b>          | 18,546        | 13,269        | 16,769        | 31,486        |
| Provision for credit losses .....   | <b>46,907</b>          | 23,305        | 13,182        | 2,250         | 12,500        |
| Balance at end of year.....   | <b>\$ 169,410</b>      | \$ 176,084    | \$ 171,325    | \$ 171,412    | \$ 185,931    |
| <i>Components of Allowance for Credit Losses:</i>   |                        |               |               |               |               |
| Allowance for loan losses .....   | <b>\$ 160,537</b>      | \$ 169,910    | \$ 168,679    | \$ 169,054    | \$ 184,144    |
| Reserve for unfunded lending commitments <sup>(1)</sup> .....   | <b>8,873</b>           | 6,174         | 2,646         | 2,358         | 1,787         |
| Allowance for credit losses.....  | <b>\$ 169,410</b>      | \$ 176,084    | \$ 171,325    | \$ 171,412    | \$ 185,931    |
| <i>Selected Asset Quality Ratios:</i>   |                        |               |               |               |               |
| Net charge-offs to average loans.....   | <b>0.34%</b>           | 0.12%         | 0.09%         | 0.13%         | 0.24%         |
| Allowance for loan losses to total loans .....  | <b>0.99%</b>           | 1.08%         | 1.15%         | 1.22%         | 1.40%         |
| Allowance for credit losses to total loans .....  | <b>1.05%</b>           | 1.12%         | 1.17%         | 1.24%         | 1.42%         |
| Non-performing assets <sup>(2)</sup> to total assets .....  | <b>0.73%</b>           | 0.72%         | 0.76%         | 0.87%         | 0.88%         |
| Non-performing assets <sup>(2)</sup> to total loans and OREO.....   | <b>0.93%</b>           | 0.92%         | 0.98%         | 1.13%         | 1.15%         |
| Non-accrual loans to total loans.....   | <b>0.80%</b>           | 0.79%         | 0.82%         | 0.94%         | 0.92%         |
| Allowance for credit losses to non-performing loans .....   | <b>121.29%</b>         | 130.67%       | 130.15%       | 118.37%       | 134.26%       |
| Non-performing assets <sup>(2)</sup> to tangible equity and allowance for credit losses <sup>(3)</sup> ("Texas Ratio")..... | <b>7.97%</b>           | 7.71%         | 8.20%         | 9.27%         | 9.12%         |

(1) Reserve for unfunded lending commitments is 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 \$23.6 million in comparison to 2017 due mainly to a \$36.8 million provision related to the customer fraud-related Commercial Relationship. Net charge-offs increased \$35.0 million to \$53.6 million in 2018 from \$18.5 million in 2017. This increase was primarily the result of a \$33.9 million charge-off related to the customer fraud-related Commercial Relationship during 2018.

The following table presents the changes in non-accrual loans for the years ended December 31:

|   | Commercial -<br>Industrial,<br>Financial and<br>Agricultural | Real Estate -<br>Commercial<br>Mortgage | Real Estate -<br>Construction | Real Estate -<br>Residential<br>Mortgage | Real Estate -<br>Home<br>Equity | Consumer       | Leasing          | Total             |
|---|--|---|-------------------------------|--|---------------------------------|----------------|------------------|-------------------|
| (in thousands)  |  |   |                               |  |                                 |                |                  |                   |
| Balance of non-accrual loans<br>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 <sup>(1)</sup> .....                          | (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<br>at December 31, 2017..... | <b>52,904</b>  | <b>34,822</b>                           | <b>12,197</b>                 | <b>15,691</b>                            | <b>9,135</b>                    | —              | —                | <b>124,749</b>    |
| Additions.....  | <b>91,057</b>  | <b>19,507</b>                           | <b>1,433</b>                  | <b>3,707</b>                             | <b>5,252</b>                    | <b>3,040</b>   | <b>20,243</b>    | <b>144,239</b>    |
| Payments.....   | <b>(39,887)</b>  | <b>(15,961)</b>                         | <b>(4,872)</b>                | <b>(1,120)</b>                           | <b>(1,951)</b>                  | —              | —                | <b>(63,791)</b>   |
| Charge-offs <sup>(1)</sup> .....                          | <b>(52,441)</b>  | <b>(2,045)</b>                          | <b>(1,368)</b>                | <b>(1,574)</b>                           | <b>(3,087)</b>                  | <b>(3,040)</b> | <b>(974)</b>     | <b>(64,529)</b>   |
| Transfers to OREO.....                                    | <b>(1,027)</b>   | <b>(3,206)</b>                          | —                             | <b>(1,999)</b>                           | <b>(1,982)</b>                  | —              | —                | <b>(8,214)</b>    |
| Transfers to accrual status.....                          | <b>(457)</b>   | <b>(2,728)</b>                          | —                             | <b>(37)</b>                              | <b>(660)</b>                    | —              | —                | <b>(3,882)</b>    |
| Balance of non-accrual loans<br>at December 31, 2018..... | <b>\$ 50,149</b>   | <b>\$ 30,389</b>                        | <b>\$ 7,390</b>               | <b>\$ 14,668</b>                         | <b>\$ 6,707</b>                 | <b>\$ —</b>    | <b>\$ 19,269</b> | <b>\$ 128,572</b> |

(1) Excludes charge-offs of loans on accrual status.

Non-accrual loans increased \$3.8 million, or 3.1%, in 2018 due mainly to an increase in non-accrual loan additions from \$92.8 million in 2017 to \$144.2 million in 2018, partially offset by an increase in payments and charge-offs. During 2018, the customer fraud-related Commercial Relationship resulted in a net addition of \$7.3 million to non-accrual loans (a \$41.2 million addition reduced by \$33.9 million of net charge-offs). In addition, another large commercial relationship, which included commercial loans and leases totaling \$35.0 million, was added to non-accrual loans during the year. This relationship was current in payments, but showed signs of weakness. Non-accrual loan balances were reduced primarily through payments and charge-offs. Non-accrual loans to total loans increased slightly, to 0.80% at December 31, 2018, as compared to 0.79% at December 31, 2017.

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

|  | 2018              | 2017              | 2016              | 2015              | 2014              |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
| (in thousands)   |                   |                   |                   |                   |                   |
| Non-accrual loans <sup>(1) (2) (3)</sup> .....                         | \$ 128,572        | \$ 124,749        | \$ 120,133        | \$ 129,523        | \$ 121,080        |
| Loans 90 days or more past due and still accruing <sup>(2)</sup> ..... | 11,106            | 10,010            | 11,505            | 15,291            | 17,402            |
| Total non-performing loans.....  | <b>139,678</b>    | 134,759           | 131,638           | 144,814           | 138,482           |
| OREO.....  | 10,518            | 9,823             | 12,815            | 11,099            | 12,022            |
| Total non-performing assets.....                                       | <b>\$ 150,196</b> | <b>\$ 144,582</b> | <b>\$ 144,453</b> | <b>\$ 155,913</b> | <b>\$ 150,504</b> |

- (1) In 2018, the total interest income that would have been recorded if non-accrual loans had been current in accordance with their original terms was approximately \$6.3 million. The amount of interest income on non-accrual loans that was recognized in 2018 was approximately \$2.0 million.
- (2) Accrual of interest is generally discontinued when a loan becomes 90 days past due. 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 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, 2018 were \$61.6 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 non-performing loans, by type, as of the dates shown, and the changes in non-performing loans for the most recent year:

|   | December 31,           |                  |                  |                  |                  | 2018 vs. 2017<br>(Decrease) Increase |              |
|---|------------------------|------------------|------------------|------------------|------------------|--------------------------------------|--------------|
|   | 2018                   | 2017             | 2016             | 2015             | 2014             | \$                                   | %            |
|   | (dollars in thousands) |                  |                  |                  |                  |                                      |              |
| Commercial – industrial, financial and agricultural ..... | \$ 51,269              | \$ 54,309        | \$ 43,460        | \$ 44,071        | \$ 30,388        | \$ (3,040)                           | (5.6)%       |
| Real estate – commercial mortgage .....                   | 32,153                 | 35,447           | 39,319           | 41,170           | 45,237           | (3,294)                              | (9.3)        |
| Real estate – residential mortgage .....                  | 19,101                 | 20,971           | 23,655           | 28,484           | 28,995           | (1,870)                              | (8.9)        |
| Real estate – home equity .....                           | 9,769                  | 11,507           | 13,154           | 14,683           | 14,740           | (1,738)                              | (15.1)       |
| Real estate – construction .....                          | 7,390                  | 12,197           | 9,842            | 12,460           | 16,399           | (4,807)                              | (39.4)       |
| Consumer .....  | 409                    | 296              | 1,891            | 2,440            | 2,590            | 113                                  | 38.2         |
| Leasing .....   | 19,587                 | 32               | 317              | 1,506            | 133              | 19,555                               | N/M          |
| Total non-performing loans .....                          | <u>\$139,678</u>       | <u>\$134,759</u> | <u>\$131,638</u> | <u>\$144,814</u> | <u>\$138,482</u> | <u>\$ 4,919</u>                      | <u>3.7 %</u> |

N/M - Not meaningful

Non-performing loans increased \$4.9 million, or 3.7%, in comparison to December 31, 2017, as a result of the \$35.0 million commercial relationship noted above, which included \$15.4 million in loans and \$19.6 million in leases. This increase was largely offset by improvements in non-performing loans in the rest of the portfolio. As a percentage of total loans, non-performing loans were 0.86% at December 31, 2018, a slight increase from 0.85% at December 31, 2017.

The following table presents TDRs as of December 31:

|  | 2018             | 2017             | 2016             | 2015             | 2014             |
|--|------------------|------------------|------------------|------------------|------------------|
|  | (in thousands)   |                  |                  |                  |                  |
| Real estate – residential mortgage .....                 | \$ 24,102        | \$ 26,016        | \$ 27,617        | \$ 28,511        | \$ 31,308        |
| Real estate – home equity .....                          | 16,665           | 15,558           | 8,594            | 4,556            | 2,975            |
| Real estate – commercial mortgage .....                  | 15,685           | 13,959           | 15,957           | 17,563           | 18,822           |
| Commercial – industrial, financial and agricultural..... | 5,143            | 10,820           | 6,627            | 5,953            | 5,237            |
| Consumer .....   | 10               | 26               | 39               | 33               | 38               |
| Real estate – construction .....                         | —                | —                | 726              | 3,942            | 9,241            |
| Total accruing TDRs .....                                | <u>61,605</u>    | <u>66,379</u>    | <u>59,560</u>    | <u>60,558</u>    | <u>67,621</u>    |
| Non-accrual TDRs <sup>(1)</sup> .....                    | <u>28,659</u>    | <u>29,051</u>    | <u>27,850</u>    | <u>31,035</u>    | <u>24,616</u>    |
| Total TDRs .....   | <u>\$ 90,264</u> | <u>\$ 95,430</u> | <u>\$ 87,410</u> | <u>\$ 91,593</u> | <u>\$ 92,237</u> |

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

Total TDRs modified during 2018 and still outstanding as of December 31, 2018 were \$18.4 million. Of these loans, \$5.0 million, or 27.0%, had a payment default during 2018, which the Corporation defines as a single missed scheduled payment, subsequent to modification. TDRs modified during 2017 and still outstanding as of December 31, 2017 totaled \$29.6 million. Of these loans, \$5.9 million, or 19.8%, had a payment default subsequent to modification during 2017.

The following table summarizes OREO, by property type, as of December 31:

|                             | 2018             | 2017            |
|-----------------------------|------------------|-----------------|
|                             | (in thousands)   |                 |
| Residential properties..... | \$ 3,665         | \$ 4,562        |
| Commercial properties.....  | 4,127            | 3,331           |
| Undeveloped land .....      | 2,726            | 1,930           |
| Total OREO .....            | <u>\$ 10,518</u> | <u>\$ 9,823</u> |

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 \$11.7 billion and \$11.6 billion as of December 31, 2018 and 2017, 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 |            | 2018 vs. 2017<br>Increase (Decrease) |        | Substandard or Lower |            | 2018 vs. 2017<br>Increase (Decrease) |         | Total Criticized Loans |            |
|--|-----------------|------------|--------------------------------------|--------|----------------------|------------|--------------------------------------|---------|------------------------|------------|
|  | 2018            | 2017       | \$                                   | %      | 2018                 | 2017       | \$                                   | %       | 2018                   | 2017       |
| (dollars in thousands)   |                 |            |                                      |        |                      |            |                                      |         |                        |            |
| Real estate - commercial mortgage .....                            | \$ 170,827      | \$ 147,604 | \$ 23,223                            | 15.7%  | \$ 133,995           | \$ 150,804 | \$ (16,809)                          | (11.1)% | \$ 304,822             | \$ 298,408 |
| Commercial - secured.....  | 193,470         | 121,842    | 71,628                               | 58.8   | 129,026              | 179,113    | (50,087)                             | (28.0)  | 322,496                | 300,955    |
| Commercial -unsecured.....   | 4,016           | 5,478      | (1,462)                              | (26.7) | 3,963                | 2,759      | 1,204                                | 43.6    | 7,979                  | 8,237      |
| Total commercial - industrial,<br>financial and agricultural ..... | 197,486         | 127,320    | 70,166                               | 55.1   | 132,989              | 181,872    | (48,883)                             | (26.9)  | 330,475                | 309,192    |
| Construction - commercial residential.                             | 6,912           | 5,259      | 1,653                                | 31.4   | 6,881                | 14,084     | (7,203)                              | (51.1)  | 13,793                 | 19,343     |
| Construction - commercial .....                                    | 1,163           | 846        | 317                                  | 37.5   | 2,533                | 3,752      | (1,219)                              | (32.5)  | 3,696                  | 4,598      |
| Total construction (excluding<br>construction - other).....        | 8,075           | 6,105      | 1,970                                | 32.3   | 9,414                | 17,836     | (8,422)                              | (47.2)  | 17,489                 | 23,941     |
| Total.....   | \$ 376,388      | \$ 281,029 | \$ 95,359                            | 33.9%  | \$ 276,398           | \$ 350,512 | \$ (74,114)                          | (21.1)% | \$ 652,786             | \$ 631,541 |
| % of total risk rated loans .....                                  | 3.2%            | 2.4%       |                                      |        | 2.4%                 | 3.0%       |                                      |         | 5.6%                   | 5.4%       |

As of December 31, 2018, total loans with risk ratings of special mention and substandard or lower were \$21.2 million, or 3.4% higher than 2017, 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 <sup>(1)</sup> |       |           |       | Non-performing <sup>(2)</sup> |       |           |       | Total     |       |           |       |
|--|---------------------------|-------|-----------|-------|-------------------------------|-------|-----------|-------|-----------|-------|-----------|-------|
|  | 2018                      |       | 2017      |       | 2018                          |       | 2017      |       | 2018      |       | 2017      |       |
|  | \$                        | %     | \$        | %     | \$                            | %     | \$        | %     | \$        | %     | \$        | %     |
| (dollars in thousands)                   |                           |       |           |       |                               |       |           |       |           |       |           |       |
| Real estate - home equity.....           | \$ 10,702                 | 0.74% | \$ 12,655 | 0.81% | \$ 9,769                      | 0.67% | \$ 11,507 | 0.74% | \$ 20,471 | 1.41% | \$ 24,162 | 1.55% |
| Real estate - residential mortgage ..... | 28,988                    | 1.29  | 18,852    | 0.97  | 19,101                        | 0.85  | 20,971    | 1.07  | 48,089    | 2.14  | 39,823    | 2.04  |
| Real estate - construction - other ..... | —                         | —     | 203       | 0.26  | 490                           | 0.68  | 411       | 0.53  | 490       | 0.68  | 614       | 0.79  |
| Consumer - direct.                       | 338                       | 0.60  | 315       | 0.57  | 66                            | 0.12  | 70        | 0.13  | 404       | 0.72  | 385       | 0.70  |
| Consumer - indirect .....                | 3,405                     | 0.94  | 3,681     | 1.42  | 343                           | 0.09  | 226       | 0.09  | 3,748     | 1.03  | 3,907     | 1.51  |
| Total Consumer.....                      | 3,743                     | 0.89  | 3,996     | 1.28  | 409                           | 0.10  | 296       | 0.09  | 4,152     | 0.99  | 4,292     | 1.37  |
| Leasing, other and Overdrafts .....      | 1,302                     | 0.45  | 855       | 0.32  | 19,587                        | 6.80  | 32        | 0.01  | 20,889    | 7.25  | 887       | 0.33  |
| Total.....                               | \$ 44,735                 | 1.00% | \$ 36,561 | 0.87% | \$ 49,356                     | 1.10% | \$ 33,217 | 0.80% | \$ 94,091 | 2.10% | \$ 69,778 | 1.67% |

(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 \$19.6 million increase in non-performing leases was primarily the result of the previously mentioned commercial relationship which included loans and leases.

The following table summarizes the allocation of the allowance for loan losses:

|  | 2018              |                             | 2017              |                             | 2016              |                             | 2015              |                             | 2014              |                             |
|--|-------------------|-----------------------------|-------------------|-----------------------------|-------------------|-----------------------------|-------------------|-----------------------------|-------------------|-----------------------------|
|  | 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.....                   | \$ 52,889         | 39.7%                       | \$ 58,793         | 40.3%                       | \$ 46,842         | 40.9%                       | \$ 47,866         | 39.5%                       | \$ 53,493         | 39.6%                       |
| Commercial - industrial, financial and agricultural..... | 58,868            | 27.2                        | 66,280            | 27.2                        | 54,353            | 27.8                        | 57,098            | 29.5                        | 51,378            | 28.4                        |
| Real estate - residential mortgage.....                  | 18,921            | 13.9                        | 16,088            | 12.4                        | 22,929            | 10.9                        | 21,375            | 9.9                         | 29,072            | 10.5                        |
| Consumer, home equity, leasing & other.....              | 24,798            | 13.5                        | 22,129            | 13.7                        | 33,567            | 14.7                        | 27,458            | 15.3                        | 33,085            | 16.2                        |
| Real estate - construction.....                          | 5,061             | 5.7                         | 6,620             | 6.4                         | 6,455             | 5.7                         | 6,529             | 5.8                         | 9,756             | 5.3                         |
| Unallocated.....   | —                 | N/A                         | —                 | N/A                         | 4,533             | N/A                         | 8,728             | N/A                         | 7,360             | N/A                         |
| <i>Total</i> .....                                       | <u>\$ 160,537</u> | <u>100.0%</u>               | <u>\$ 169,910</u> | <u>100.0%</u>               | <u>\$ 168,679</u> | <u>100.0%</u>               | <u>\$ 169,054</u> | <u>100.0%</u>               | <u>\$ 184,144</u> | <u>100.0%</u>               |

N/A – Not applicable

Management believes that the \$160.5 million allowance for loan losses as of December 31, 2018 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 increased \$29.9 million, or 4.7%, to \$671.8 million as of December 31, 2018, primarily driven by a \$21.4 million increase in net deferred tax assets resulting from an increase in tax credit carry forwards of \$27.6 million. See additional detail in "Note 12 - Income Taxes" in the Notes to Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data."

#### Deposits and Borrowings

The following table presents ending deposits, by type, as of December 31:

|  | 2018                 | 2017                 | (Decrease) Increase |              |
|--|----------------------|----------------------|---------------------|--------------|
|  |                      |                      | \$                  | %            |
| (dollars in thousands)                 |                      |                      |                     |              |
| Noninterest-bearing demand.....        | \$ 4,310,105         | \$ 4,437,294         | \$ (127,189)        | (2.9)%       |
| Interest-bearing demand.....           | 4,240,974            | 4,018,107            | 222,867             | 5.5          |
| Savings and money market accounts..... | 4,926,937            | 4,586,746            | 340,191             | 7.4          |
| <i>Total demand and savings</i> .....  | <u>13,478,016</u>    | <u>13,042,147</u>    | <u>435,869</u>      | <u>3.3</u>   |
| Brokered deposits.....                 | 176,239              | 90,473               | 85,766              | 94.8         |
| Time deposits.....                     | 2,721,904            | 2,664,912            | 56,992              | 2.1          |
| <i>Total deposits</i> .....            | <u>\$ 16,376,159</u> | <u>\$ 15,797,532</u> | <u>\$ 578,627</u>   | <u>3.7 %</u> |

Noninterest-bearing demand deposits decreased \$127.2 million, or 2.9%, primarily due to a \$162.8 million decrease in commercial account balances, partially offset by a \$23.3 million increase in state and municipal account balances and a \$16.7 million increase in personal account balances. Interest-bearing demand accounts increased \$222.9 million, or 5.5%, due to a \$222.1 million, or 14.4%, increase in state and municipal account balances. The \$340.2 million, or 7.4%, increase in savings and money market account balances was primarily due to a \$323.4 million, or 9.8%, increase in personal account balances largely driven by promotional efforts throughout the year. Brokered deposits increased \$85.8 million, or 94.8%, as of December 31, 2018, primarily as a result of a deposit gathering program which the Corporation began during the third quarter of 2017. See also the "Results of Operations" section of Management's Discussion for more detail on brokered deposits.



The following table presents ending borrowings, by type as of December 31:

|  | 2018                | 2017         | (Decrease) Increase    |         |
|--|---------------------|--------------|------------------------|---------|
|  |                     |              | \$                     | %       |
|  |                     |              | (dollars in thousands) |         |
| <b>Short-term borrowings:</b>                  |                     |              |                        |         |
| Customer repurchase agreements.....            | \$ 43,500           | \$ 172,017   | \$ (128,517)           | (74.7)% |
| Customer short-term promissory notes .....     | 326,277             | 225,507      | 100,770                | 44.7    |
| <i>Total short-term customer funding</i> ..... | <b>369,777</b>      | 397,524      | (27,747)               | (7.0)   |
| Federal funds purchased.....                   | —                   | 220,000      | (220,000)              | N/M     |
| Short-term FHLB advances <sup>(1)</sup> .....  | 385,000             | —            | 385,000                | N/M     |
| <i>Total short-term borrowings</i> .....       | <b>754,777</b>      | 617,524      | 137,253                | 22.2    |
| <b>Long-term debt:</b>                         |                     |              |                        |         |
| FHLB advances.....                             | 601,978             | 652,113      | (50,135)               | (7.7)   |
| Other long-term debt.....                      | 390,301             | 386,233      | 4,068                  | 1.1     |
| <i>Total long-term debt</i> .....              | <b>992,279</b>      | 1,038,346    | (46,067)               | (4.4)   |
| <i>Total borrowings</i> .....                  | <b>\$ 1,747,056</b> | \$ 1,655,870 | \$ 91,186              | 5.5 %   |

N/M - Not meaningful

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

The \$137.3 million, or 22.2%, increase in total short-term borrowings resulted from \$385.0 million in short-term FHLB advances and a \$100.8 million increase in customer short-term promissory notes, partially offset by no federal funds purchased at December 31, 2018 as compared to \$220.0 million at December 31, 2017 and a \$128.5 million, or 74.7%, decrease in customer repurchase agreements. The increase in short-term borrowings provided additional funding to support loan growth. The decrease in other long-term debt was the result of the \$50.1 million decrease in long-term FHLB advances as a result of maturing advances that were not replaced.

### Other Liabilities

Other liabilities decreased \$42.3 million, or 12.0%, to \$311.4 million as of December 31, 2018. The decrease resulted primarily from a \$47.9 million decrease in new commitments to fund tax credit investments and a \$16.4 million decrease in accrued salaries and benefits, primarily a result of the \$13.8 million funding of the accrued defined benefit pension obligation during 2018. See "Note 13 - Employee Benefit Plans," in the Notes to the Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data." for additional information. These decreases were partially offset by changes in the fair value of derivative financial instruments. See "Note 10 - Derivative Financial Instruments," in the Notes to the Consolidated Financial Statements in Item 8. "Financial Statements and Supplementary Data." for additional information.

### Shareholders' Equity

Total shareholders' equity increased \$17.7 million, or 0.8%, to \$2.2 billion, or 10.9%, of total assets, as of December 31, 2018. The increase was due primarily to \$208.4 million of net income, \$6.7 million of common stock issued and \$8.0 million of stock-based compensation awards, largely offset by \$95.3 million of common stock repurchases, \$91.1 million of common stock cash dividends and a \$19.0 million net decrease in accumulated other comprehensive income.

In November 2017, the Corporation's board of directors approved an extension to 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, 2018. During 2018, the Corporation repurchased approximately 1.9 million shares under this program for a total cost of approximately \$31.5 million, or \$16.71 per share, completing this program.

In November 2018, the Corporation's board of directors approved a share repurchase program pursuant to which the Corporation is authorized to repurchase up to \$75.0 million of its outstanding shares of common stock, or approximately 2.7% of its outstanding shares, through December 31, 2019. During 2018, the Corporation repurchased approximately 4.1 million shares under this program for a total cost of \$63.7 million, or \$15.49 per share. Up to an additional \$11.3 million of the Corporation's common stock may be repurchased under this program through December 31, 2019.

Total commissions and fees paid on stock repurchases in 2018 were \$139,000. Under both repurchase programs, repurchased shares were 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 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:

|   | <b>2018</b>  | 2017  | Regulatory<br>Minimum<br>for Capital<br>Adequacy | Fully Phased-<br>in, with Capital<br>Conservation<br>Buffers |
|---|--------------|-------|--|--|
| Total capital (to risk-weighted assets).....        | <b>12.8%</b> | 13.0% | 8.0%   | 10.5%  |
| Tier I capital (to risk-weighted assets).....       | <b>10.2%</b> | 10.4% | 6.0%   | 8.5%   |
| Common equity tier I (to risk-weighted assets)..... | <b>10.2%</b> | 10.4% | 4.5%   | 7.0%   |
| Tier leverage capital (to average assets) .....     | <b>9.0%</b>  | 8.9%  | 4.0%   | 4.0%   |

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 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 were 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.

As of January 1, 2019, the Corporation and its bank subsidiaries are also 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, 2018, 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 table above. There are no conditions or events since December 31, 2018 that management believes have changed the institutions' categories. 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, 2018:

|   | Payments Due In     |                       |                        |                    |               |
|---|---------------------|-----------------------|------------------------|--------------------|---------------|
|   | One Year<br>or Less | One to<br>Three Years | Three to<br>Five Years | Over Five<br>Years | Total         |
|   | (in thousands)      |                       |                        |                    |               |
| Deposits with no stated maturity <sup>(1)</sup> | \$ 13,654,255       | \$ —                  | \$ —                   | \$ —               | \$ 13,654,255 |
| Time deposits <sup>(2)</sup>                    | 1,561,694           | 920,579               | 184,677                | 54,954             | 2,721,904     |
| Short-term borrowings <sup>(3)</sup>            | 754,777             | —                     | —                      | —                  | 754,777       |
| Long-term debt <sup>(3)</sup>                   | 252,351             | 341,410               | 130,195                | 268,323            | 992,279       |
| Operating leases <sup>(4)</sup>                 | 18,013              | 32,935                | 25,102                 | 43,307             | 119,357       |
| Purchase obligations <sup>(5)</sup>             | 19,434              | 43,376                | 10,347                 | —                  | 73,157        |
| Uncertain tax positions <sup>(6)</sup>          | 501                 | 973                   | 652                    | 600                | 2,726         |

(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, 2018 (in thousands):

|   |                     |
|---|---------------------|
| Commercial and other                      | \$ 3,642,545        |
| Home equity                               | 1,475,066           |
| Commercial mortgage and construction      | 1,188,972           |
| <i>Total commitments to extend credit</i> | <u>\$ 6,306,583</u> |
| Standby letters of credit                 | \$ 309,352          |
| Commercial letters of credit              | 48,682              |
| <i>Total letters of credit</i>            | <u>\$ 358,034</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, i.e. a non-parallel instantaneous shock, on net interest income as of December 31, 2018 (due to the current level of interest rates, the 300 basis point downward shock scenario is not shown):

| <u>Rate Shock</u> <sup>(1)</sup> | <u>Annual change<br/>in net interest income</u> | <u>% Change in net<br/>interest income</u> |
|----------------------------------|---|--|
| +300 bp .....                    | + \$63.0 million                                | + 9.2%                                     |
| +200 bp .....                    | + \$43.5 million                                | + 6.3%                                     |
| +100 bp .....                    | + \$22.6 million                                | + 3.3%                                     |
| -100 bp.....                     | - \$37.0 million                                | - 5.4%                                     |
| -200 bp.....                     | - \$88.0 million                                | - 12.8%                                    |

(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, 2018, 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 and the gross fair values are recorded in other assets and 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.

### 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, brokered 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 experience a proportionate increase. 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, 2018, the Corporation had \$987.0 million of short- and long-term advances outstanding from the FHLB with an additional borrowing capacity of approximately \$2.4 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, 2018, the Corporation had aggregate availability under federal funds lines of \$1.3 billion, with nothing borrowed against that amount. A combination of commercial real estate loans, commercial loans and securities are pledged to the Federal Reserve Bank of Philadelphia to provide access to Federal Reserve Bank Discount Window borrowings. As of December 31, 2018, the Corporation had \$505.2 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 2018 generated \$296.8 million of cash, mainly due to net income. Cash used in investing activities was \$740.7 million, due to net increases in loans and investment securities. Net cash provided by financing activities was \$487.5 million due mainly to increases in deposits.

The following table presents the expected maturities of available for sale investment securities, at estimated fair value, and held to maturity investment securities, at amortized cost, as of December 31, 2018 and the weighted average yields on 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)                                     |                 |       |                                 |       |                                 |       |                 |       |
| <b>Available for sale</b>                                  |                 |       |                                 |       |                                 |       |                 |       |
| U.S. Government sponsored agency securities .....          | \$ —            | —%    | \$ 28,683                       | 2.80% | \$ 2,949                        | 3.08% | \$ —            | —%    |
| State and municipal <sup>(1)</sup> .....                   | 5,741           | 3.30  | 24,092                          | 3.60  | 21,641                          | 5.59  | 227,622         | 3.98  |
| Corporate debt securities .....                            | 999             | 2.49  | 17,407                          | 3.47  | 82,119                          | 4.59  | 102,994         | 3.90  |
| Auction rate securities <sup>(2)</sup> .....               | —               | —     | —                               | —     | —                               | —     | 9,007           | 4.44  |
| Total .....  | \$ 6,740        | 3.18% | \$ 70,182                       | 3.24% | \$ 106,709                      | 4.75% | \$ 339,623      | 3.97% |
| <b>Held to maturity</b>                                    |                 |       |                                 |       |                                 |       |                 |       |
| State and municipal <sup>(1)</sup> .....                   | \$ —            | —%    | \$ —                            | —%    | \$ —                            | —%    | \$ 156,134      | 4.16% |
| <b>Available for sale</b>                                  |                 |       |                                 |       |                                 |       |                 |       |
| Collateralized mortgage obligations <sup>(3)</sup> .....   | \$ 832,080      | 2.75% |                                 |       |                                 |       |                 |       |
| Residential mortgage-backed securities <sup>(3)</sup> .... | 463,344         | 2.39% |                                 |       |                                 |       |                 |       |
| Commercial mortgage-backed securities <sup>(3)</sup> ..    | 261,616         | 2.54% |                                 |       |                                 |       |                 |       |
| <b>Held to maturity</b>                                    |                 |       |                                 |       |                                 |       |                 |       |
| Residential mortgage-backed securities <sup>(3)</sup> .... | \$ 450,545      | 2.14% |                                 |       |                                 |       |                 |       |

(1) Weighted average yields on tax-exempt securities have been computed on a fully taxable-equivalent basis assuming a federal tax rate of 21% 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, 2018, 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, 2018:

|  | One Year or Less | One Through Five Years | More Than Five Years | Total         |
|--|------------------|------------------------|----------------------|---------------|
|  | (in thousands)   |                        |                      |               |
| <b>Commercial - industrial, financial and agricultural</b> |                  |                        |                      |               |
| Adjustable and floating rate .....                         | \$ 876,941       | \$ 2,136,919           | \$ 544,728           | \$ 3,558,588  |
| Fixed rate .....   | 217,839          | 364,662                | 270,503              | 853,004       |
| Total .....  | \$ 1,094,780     | \$ 2,501,581           | \$ 815,231           | \$ 4,411,592  |
| <b>Real estate – mortgage <sup>(1)</sup>:</b>              |                  |                        |                      |               |
| Adjustable and floating rate .....                         | \$ 1,415,137     | \$ 4,196,186           | \$ 2,348,503         | \$ 7,959,826  |
| Fixed rate .....   | 477,863          | 1,091,589              | 608,188              | 2,177,640     |
| Total .....  | \$ 1,893,000     | \$ 5,287,775           | \$ 2,956,691         | \$ 10,137,466 |
| <b>Real estate – construction:</b>                         |                  |                        |                      |               |
| Adjustable and floating rate .....                         | \$ 262,806       | \$ 328,465             | \$ 224,737           | \$ 816,008    |
| Fixed rate .....   | 82,290           | 9,638                  | 8,663                | 100,591       |
| Total .....  | \$ 345,096       | \$ 338,103             | \$ 233,400           | \$ 916,599    |

(1) Includes commercial mortgages, residential mortgages and home equity loans.

Contractual maturities of time deposits as of December 31, 2018 were as follows (in thousands):

| Year             |                     |
|------------------|---------------------|
| 2019 .....       | \$ 1,561,694        |
| 2020 .....       | 667,265             |
| 2021 .....       | 253,314             |
| 2022 .....       | 153,447             |
| 2023 .....       | 31,230              |
| Thereafter ..... | 54,954              |
|                  | <u>\$ 2,721,904</u> |

Contractual maturities of time deposits of \$100,000 or more outstanding, included in the table above, as of December 31, 2018 were as follows (in thousands):

|                                      |                     |
|--------------------------------------|---------------------|
| Three months or less .....           | \$ 230,906          |
| Over three through six months .....  | 185,930             |
| Over six through twelve months ..... | 342,036             |
| Over twelve months .....             | 486,665             |
| Total .....                          | <u>\$ 1,245,537</u> |

#### 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, 2018, the Corporation owned state and municipal securities issued by various states and municipalities with a total fair value of \$436.3 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, 2018, 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, 2018, 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 \$103.0 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, 2018, all of the ARCs were rated above investment grade. All of the loans underlying the ARCs have principal payments which are guaranteed by the federal government. At December 31, 2018, 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 and senior debt issued by financial institutions. As of December 31, 2018, these securities had an amortized cost of \$111.5 million and an estimated fair value of \$109.5 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,         |                      |
|--|----------------------|----------------------|
|  | 2018                 | 2017                 |
| <b>Assets</b>  |                      |                      |
| Cash and due from banks .....  | \$ 103,436           | \$ 108,291           |
| Interest-bearing deposits with other banks.....  | 342,251              | 293,805              |
| Total cash and cash equivalents .....  | 445,687              | 402,096              |
| Federal Reserve Bank and Federal Home Loan Bank stock.....   | 79,283               | 60,761               |
| Loans held for sale .....  | 27,099               | 31,530               |
| Investment securities:   |                      |                      |
| Available for sale, at estimated fair value .....  | 2,080,294            | 2,547,956            |
| Held to maturity, at amortized cost .....  | 606,679              | —                    |
| Loans, net of unearned income .....  | 16,165,800           | 15,768,247           |
| Allowance for loan losses .....  | (160,537)            | (169,910)            |
| <i>Net Loans</i> .....   | 16,005,263           | 15,598,337           |
| Premises and equipment.....  | 234,529              | 222,802              |
| Accrued interest receivable .....  | 58,879               | 52,910               |
| Goodwill and intangible assets .....   | 531,556              | 531,556              |
| Other assets .....   | 612,883              | 588,957              |
| <i>Total Assets</i> .....  | <u>\$ 20,682,152</u> | <u>\$ 20,036,905</u> |
| <b>Liabilities</b>   |                      |                      |
| Deposits:  |                      |                      |
| Noninterest-bearing.....   | \$ 4,310,105         | \$ 4,437,294         |
| Interest-bearing .....   | 12,066,054           | 11,360,238           |
| <i>Total Deposits</i> .....  | 16,376,159           | 15,797,532           |
| Short-term borrowings:   |                      |                      |
| Federal funds purchased .....  | —                    | 220,000              |
| Other short-term borrowings.....   | 754,777              | 397,524              |
| <i>Total Short-Term Borrowings</i> .....   | 754,777              | 617,524              |
| Accrued interest payable .....   | 10,529               | 9,317                |
| Other liabilities.....   | 300,835              | 344,329              |
| Federal Home Loan Bank advances and long-term debt .....   | 992,279              | 1,038,346            |
| <i>Total Liabilities</i> .....   | <u>18,434,579</u>    | <u>17,807,048</u>    |
| <b>Shareholders' Equity</b>  |                      |                      |
| Common stock, \$2.50 par value, 600 million shares authorized, 221.8 million shares issued in 2018 and 220.9 million shares issued in 2017 ..... | 554,377              | 552,232              |
| Additional paid-in capital.....  | 1,489,703            | 1,478,389            |
| Retained earnings.....   | 946,032              | 821,619              |
| Accumulated other comprehensive loss.....  | (59,063)             | (32,974)             |
| Treasury stock, 51.6 million shares in 2018 and 45.7 million shares in 2017 .....  | (683,476)            | (589,409)            |
| <i>Total Shareholders' Equity</i> .....  | <u>2,247,573</u>     | <u>2,229,857</u>     |
| <i>Total Liabilities and Shareholders' Equity</i> .....  | <u>\$ 20,682,152</u> | <u>\$ 20,036,905</u> |

See Notes to Consolidated Financial Statements

## CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands, except per-share data)

|  | 2018              | 2017              | 2016              |
|--|-------------------|-------------------|-------------------|
| <b>Interest Income</b>   |                   |                   |                   |
| Loans, including fees .....  | \$ 683,042        | \$ 603,961        | \$ 543,385        |
| Investment securities:   |                   |                   |                   |
| Taxable .....  | 56,039            | 47,028            | 44,975            |
| Tax-exempt .....   | 12,076            | 11,566            | 9,662             |
| Dividends .....  | 5                 | 369               | 571               |
| Loans held for sale .....  | 1,159             | 876               | 728               |
| Other interest income .....  | 6,193             | 5,066             | 3,779             |
| <i>Total Interest Income</i> .....                                 | <b>758,514</b>    | <b>668,866</b>    | <b>603,100</b>    |
| <b>Interest Expense</b>  |                   |                   |                   |
| Deposits .....   | 87,712            | 57,791            | 44,693            |
| Short-term borrowings .....  | 8,489             | 2,779             | 855               |
| Long-term debt .....   | 31,857            | 32,932            | 36,780            |
| <i>Total Interest Expense</i> .....                                | <b>128,058</b>    | <b>93,502</b>     | <b>82,328</b>     |
| <i>Net Interest Income</i> .....                                   | <b>630,456</b>    | <b>575,364</b>    | <b>520,772</b>    |
| Provision for credit losses .....                                  | 46,907            | 23,305            | 13,182            |
| <i>Net Interest Income After Provision for Credit Losses</i> ..... | <b>583,549</b>    | <b>552,059</b>    | <b>507,590</b>    |
| <b>Non-Interest Income</b>   |                   |                   |                   |
| Other service charges and fees .....                               | 53,777            | 52,859            | 51,473            |
| Investment management and trust services .....                     | 52,148            | 49,249            | 45,270            |
| Service charges on deposit accounts .....                          | 48,889            | 51,006            | 51,346            |
| Mortgage banking income .....                                      | 19,026            | 19,928            | 19,415            |
| Other .....  | 21,648            | 25,861            | 20,124            |
| Non-interest income before investment securities gains .....       | <b>195,488</b>    | <b>198,903</b>    | <b>187,628</b>    |
| Investment securities gains, net .....                             | 37                | 9,071             | 2,550             |
| <i>Total Non-Interest Income</i> .....                             | <b>195,525</b>    | <b>207,974</b>    | <b>190,178</b>    |
| <b>Non-Interest Expense</b>  |                   |                   |                   |
| Salaries and employee benefits .....                               | 303,202           | 290,130           | 283,353           |
| Net occupancy expense .....  | 51,678            | 49,708            | 47,611            |
| Data processing and software .....                                 | 41,286            | 38,735            | 36,919            |
| Other outside services .....                                       | 33,758            | 27,501            | 23,883            |
| Professional fees .....  | 14,161            | 12,688            | 11,004            |
| Equipment expense .....  | 13,243            | 12,935            | 12,788            |
| Amortization of tax credit investments .....                       | 11,449            | 11,028            | —                 |
| FDIC insurance expense .....                                       | 10,993            | 11,049            | 9,767             |
| State taxes .....  | 9,590             | 10,051            | 6,405             |
| Other .....  | 56,744            | 61,754            | 57,789            |
| <i>Total Non-Interest Expense</i> .....                            | <b>546,104</b>    | <b>525,579</b>    | <b>489,519</b>    |
| <i>Income Before Income Taxes</i> .....                            | <b>232,970</b>    | <b>234,454</b>    | <b>208,249</b>    |
| Income taxes .....   | 24,577            | 62,701            | 46,624            |
| <i>Net Income</i> .....  | <b>\$ 208,393</b> | <b>\$ 171,753</b> | <b>\$ 161,625</b> |
| <b>Per Share:</b>  |                   |                   |                   |
| Net Income (Basic) .....   | \$ 1.19           | \$ 0.98           | \$ 0.93           |
| Net Income (Diluted) .....   | 1.18              | 0.98              | 0.93              |
| Cash Dividends .....   | 0.52              | 0.47              | 0.41              |

See Notes to Consolidated Financial Statements

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

|  | 2018              | 2017       | 2016       |
|--|-------------------|------------|------------|
| Net Income.....  | <b>\$ 208,393</b> | \$ 171,753 | \$ 161,625 |
| Other Comprehensive (Loss) Income, net of tax:   |                   |            |            |
| Unrealized (losses) gains on available for sale investment securities:                             |                   |            |            |
| Unrealized (loss) gain on securities.....  | <b>(24,326)</b>   | 10,432     | (14,891)   |
| Reclassification adjustment for securities gains included in net income .....                      | <b>(30)</b>       | (5,894)    | (1,657)    |
| Amortization of net unrealized losses on securities transferred to held to maturity .....          | <b>2,098</b>      | —          | —          |
| Non-credit related unrealized gain (loss) on other-than-temporarily impaired debt securities ..... | <b>222</b>        | 185        | (185)      |
| Net unrealized (losses) gains on available for sale investment securities .....                    | <b>(22,036)</b>   | 4,723      | (16,733)   |
| Unrealized gains on derivative financial instruments:  |                   |            |            |
| Amortization of unrealized loss on derivative financial instruments .....                          | —                 | —          | 16         |
| Defined benefit pension plan and postretirement benefits:  |                   |            |            |
| Unrecognized pension and postretirement income (cost) .....  | <b>1,400</b>      | (609)      | (931)      |
| Amortization of net unrecognized pension and postretirement income .....                           | <b>1,648</b>      | 1,361      | 1,216      |
| Net unrealized gains on defined benefit pension and postretirement plans .....                     | <b>3,048</b>      | 752        | 285        |
| <i>Other Comprehensive (Loss) Income</i> .....   | <b>(18,988)</b>   | 5,475      | (16,432)   |
| <i>Total Comprehensive Income</i> .....  | <b>\$ 189,405</b> | \$ 177,228 | \$ 145,193 |

See Notes to Consolidated Financial Statements

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands, except per share data)

|   | Common Stock          |            | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>(Loss) Income | Treasury<br>Stock | Total        |
|---|-----------------------|------------|----------------------------------|----------------------|--|-------------------|--------------|
|   | Shares<br>Outstanding | Amount     |                                  |                      |  |                   |              |
| Balance at December 31, 2015.....                             | 174,176               | \$ 547,141 | \$ 1,450,690                     | \$ 641,588           | \$ (22,017)  | \$ (575,508)      | \$ 2,041,894 |
| Net income .....  |                       |            |                                  | 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 |
| Net income .....  |                       |            |                                  | 208,393              |  |                   | 208,393      |
| Other comprehensive loss .....                                |                       |            |                                  |                      | (18,988)   |                   | (18,988)     |
| Stock issued.....   | 977                   | 2,062      | 3,432                            |                      |  | 1,241             | 6,735        |
| Stock-based compensation awards.....                          | 33                    | 83         | 7,882                            |                      |  |                   | 7,965        |
| Acquisition of treasury stock.....                            | (5,996)               |            |                                  |                      |  | (95,308)          | (95,308)     |
| Reclassification of stranded tax effects <sup>(1)</sup> ..... |                       |            |                                  | 7,101                | (7,101)  |                   | —            |
| Common stock cash dividends - \$0.52 per share .....          |                       |            |                                  | (91,081)             |  |                   | (91,081)     |
| Balance at December 31, 2018.....                             | 170,184               | \$ 554,377 | \$ 1,489,703                     | \$ 946,032           | \$ (59,063)  | \$ (683,476)      | \$ 2,247,573 |

See Notes to Consolidated Financial Statements

(1) Result of adoption of ASU 2018-02. See Note 1 to Consolidated Financial Statements for further details.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

|  | 2018              | 2017               | 2016               |
|--|-------------------|--------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                   |                    |                    |
| Net Income .....   | \$ 208,393        | \$ 171,753         | \$ 161,625         |
| Adjustments to reconcile net income to net cash provided by operating activities:        |                   |                    |                    |
| Provision for credit losses .....  | 46,907            | 23,305             | 13,182             |
| Depreciation and amortization of premises and equipment .....                            | 28,156            | 28,096             | 27,403             |
| Amortization of tax credit investments .....   | 38,606            | 37,185             | 23,982             |
| Net amortization of investment security premiums .....                                   | 9,297             | 10,107             | 10,430             |
| Deferred income tax (benefit) expense .....  | (15,749)          | 24,896             | 11,054             |
| Re-measurement of net deferred tax asset .....   | (809)             | 15,635             | —                  |
| Investment securities gains, net .....   | (37)              | (9,071)            | (2,550)            |
| Gains on sales of mortgage loans held for sale .....                                     | (13,021)          | (13,036)           | (15,685)           |
| Proceeds from sales of mortgage loans held for sale .....                                | 795,756           | 644,400            | 709,316            |
| Originations of mortgage loans held for sale .....                                       | (778,304)         | (634,197)          | (705,442)          |
| Amortization of issuance costs and discounts on long-term debt .....                     | 813               | 845                | 617                |
| Stock-based compensation .....   | 7,965             | 5,209              | 6,556              |
| Excess tax benefits from stock-based compensation .....                                  | —                 | —                  | (964)              |
| Increase in accrued interest receivable .....  | (5,969)           | (6,616)            | (3,527)            |
| Increase in other assets .....   | (26,090)          | (7,958)            | (53,922)           |
| Increase (decrease) in accrued interest payable .....                                    | 1,212             | (315)              | (1,092)            |
| (Decrease) increase in other liabilities .....   | (306)             | (2,480)            | 45,090             |
| Total adjustments .....  | 88,427            | 116,005            | 64,448             |
| <i>Net cash provided by operating activities .....</i>                                   | <b>296,820</b>    | <b>287,758</b>     | <b>226,073</b>     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                   |                    |                    |
| Proceeds from sales of available for sale securities .....                               | 54,638            | 184,734            | 115,844            |
| Proceeds from paydowns and maturities of securities held to maturity .....               | 35,900            | —                  | —                  |
| Proceeds from principal repayments and maturities of available for sale securities ..... | 290,681           | 417,673            | 558,854            |
| Purchases of available for sale securities .....   | (558,949)         | (584,921)          | (782,765)          |
| (Purchase) redemption of Federal Reserve Bank and Federal Home Loan Bank stock .....     | (18,522)          | (3,272)            | 4,727              |
| Net increase in loans .....  | (447,849)         | (1,087,521)        | (873,939)          |
| Net purchases of premises and equipment .....  | (39,883)          | (33,092)           | (19,674)           |
| Net change in tax credit investments .....   | (56,733)          | (28,932)           | (40,663)           |
| <i>Net cash used in investing activities .....</i>                                       | <b>(740,717)</b>  | <b>(1,135,331)</b> | <b>(1,037,616)</b> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                   |                    |                    |
| Net increase in demand and savings deposits .....  | 435,872           | 782,525            | 992,253            |
| Net increase (decrease) in time deposits .....   | 142,755           | 2,143              | (111,706)          |
| Increase in short-term borrowings .....  | 137,253           | 76,207             | 43,654             |
| Additions to long-term debt .....  | 50,000            | 223,251            | 215,884            |
| Repayments of long-term debt .....   | (100,165)         | (115,153)          | (236,640)          |
| Net proceeds from issuance of common stock .....   | 6,735             | 8,538              | 16,167             |
| Excess tax benefits from stock-based compensation .....                                  | —                 | —                  | 964                |
| Dividends paid .....   | (89,654)          | (80,368)           | (69,382)           |
| Acquisition of treasury stock .....  | (95,308)          | —                  | (18,545)           |
| <i>Net cash provided by financing activities .....</i>                                   | <b>487,488</b>    | <b>897,143</b>     | <b>832,649</b>     |
| Net Increase in Cash and Cash Equivalents .....  | 43,591            | 49,570             | 21,106             |
| Cash and Cash Equivalents at Beginning of Year .....                                     | 402,096           | 352,526            | 331,420            |
| Cash and Cash Equivalents at End of Year .....   | <b>\$ 445,687</b> | <b>\$ 402,096</b>  | <b>\$ 352,526</b>  |
| <b>Supplemental Disclosures of Cash Flow Information</b>                                 |                   |                    |                    |
| Cash paid during period for:   |                   |                    |                    |
| Interest .....   | \$ 126,846        | \$ 93,817          | \$ 83,420          |
| Income taxes .....   | 13,547            | 6,537              | 16,193             |
| <b>Supplemental schedule of certain noncash activities</b>                               |                   |                    |                    |
| Transfer of available for sale securities to held to maturity securities .....           | \$ 641,672        | \$ —               | \$ —               |

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 four wholly owned banking subsidiaries: Fulton Bank, N.A., Fulton Bank of New Jersey, The Columbia Bank and Lafayette Ambassador 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, most debt securities and all 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. 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 Financing Receivables:** 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 it is determined that those borrowers are experiencing financial difficulty and the Corporation grants the borrowers concessions. 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 a heightened 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 ("FASB") Accounting Standards Codification ("ASC") Section 310-10-35; and 2) allowances calculated for pools of loans evaluated for impairment under 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, 2018 and 2017, 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, 2018 and 2017, approximately 89% and 94%, 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 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. Collateral could also be in the form of 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 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 ASC Section 310-10-35 are evaluated for impairment under ASC Subtopic 450-20, using a pooled loss evaluation approach. Loans are segmented into pools with similar characteristics and a consistently developed loss factor is then applied to all loans in these pools. Certain portfolio segments are further disaggregated and evaluated collectively for impairment based on class segments. 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, home equity loans and indirect automobile loans.

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 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; and
- 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 on the Corporation's reserve for credit losses.

**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 MSRs 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, exceeds \$10 billion in total assets and is required to clear all eligible interest rate swap contracts with a central counterparty. As a result, Fulton Bank is subject to the regulations of Commodity Futures Trading Commission ("CFTC").

#### *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 limits its foreign exchange exposure with customers by entering into contracts with institutional counterparties 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. Not all of the derivatives are required to be cleared through a daily clearing agent. 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 on Interest Rate Swaps and Foreign Exchange Contracts, 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 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.

Effective January 1, 2018, the Corporation adopted ASC Update 2018-02, "Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This standards update permits a reclassification from accumulated other comprehensive income ("AOCI") to retained earnings of the stranded tax effects resulting from the application of the Tax Cuts and Jobs Act of 2017 ("Tax Act"), which changed the federal corporate income tax rate from a top rate of 35% to a flat rate of 21%. Upon adoption, the Corporation elected to reclassify \$7.1 million of stranded tax effects from AOCI to retained earnings at the beginning of the period of adoption. The Corporation's policy for releasing income tax effects from accumulated other comprehensive income is to release them as investments are sold or mature and as pension and post-retirement liabilities are extinguished.

**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 Company has not issued stock options since 2014. 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>2018</u>    | <u>2017</u>    | <u>2016</u> |
|---|----------------|----------------|-------------|
|   |                | (in thousands) |             |
| Weighted average common shares outstanding (basic) .....  | <b>175,395</b> | 174,721        | 173,325     |
| Impact of common stock equivalents.....                   | <b>1,148</b>   | 1,211          | 1,093       |
| Weighted average common shares outstanding (diluted)..... | <b>176,543</b> | 175,932        | 174,418     |

In 2016, 534,000 stock options 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 2018 and 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 four 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 2018, 2017 or 2016. 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"):** 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.

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, 2018 and 2017. 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 2018, 2017 or 2016. For additional details, see "Note 12 - Income Taxes."

**Fair Value Measurements:** 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.

Effective January 1, 2018, the Corporation adopted 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 update requires equity investments to be measured at fair value, with changes recorded in net income. It also requires the use of the exit price notion when measuring the fair value of financial instruments for disclosure purposes. The adoption of this update did not have a material impact on the consolidated financial statements.

In 2008, the Corporation received Class B restricted shares of Visa, Inc. ("Visa") as part of Visa's initial public offering. In accordance with the ASC Update 2016-01, these securities are considered equity securities without readily determinable values. As such, the approximately 133,000 Visa Class B shares remaining that the Corporation owned as of December 31, 2018 are carried at a zero cost basis.

**Revenue Recognition:** Effective January 1, 2018, the Corporation adopted ASC Update 2014-09, "Revenue from Contracts with Customers" using the modified retrospective method applied to all open contracts as of January 1, 2018 with no material impact on its consolidated financial statements. This update established 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 sources of revenue for the Corporation are interest income from loans and investments, net of interest expense on deposits and borrowings, and non-interest income. Non-interest income is earned from various banking and financial services that the Corporation offers through its subsidiary banks. Revenue is recognized as earned based on contractual terms, as transactions occur, or as services are provided. Following is further detail of the various types of revenue the Corporation earns and when it is recognized:

*Interest income:* Interest income is recognized on an accrual basis according to loan agreements, securities contracts or other such written contracts.

*Investment management and trust services:* Consists of trust commission income, brokerage income, money market income and insurance commission income. Trust commission income consists of advisory fees that are based on market values of clients' managed portfolios and transaction fees for fiduciary services performed, both of which are recognized as earned. Brokerage income includes advisory fees which are recognized as earned on a monthly basis and transaction fees that are recognized when transactions occur. Money market income is based on the balances held in trust accounts and is recognized monthly. Insurance commission income is earned and recognized when policies are originated. Currently, no investment management and trust service income is based on performance or investment results.

*Service charges on deposit accounts:* Consists of cash management, overdraft, non-sufficient fund fees and other service charges on deposit accounts. Revenue is primarily transactional and recognized when earned, at the time the transactions occur.

*Other service charges and fees:* Consists of branch fees, automated teller machine fees, debit card income and merchant services fees. These fees are primarily transactional, and revenue is recognized when transactions occur. Also included in other service charges and fees are letter of credit fees, foreign exchange income and commercial loan interest rate swap fees.

*Mortgage banking income:* Consists of gains or losses on the sale of residential mortgage loans and mortgage loan servicing income.

*Other Income:* Includes credit card income, gains on sales of Small Business Association ("SBA") loans, cash surrender value of life insurance, and other miscellaneous income.

**Cash and Cash Equivalents and Restricted Cash:** In 2018, the Corporation adopted 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.

As a result of the adoption of ASC Update 2016-18, in the fourth quarter of 2018 cash and cash equivalents, as included in the consolidated statements of cash flows, include those amounts presented in “cash and due from banks” and “interest-bearing deposits with other banks” on the consolidated balance sheets. All periods presented in the consolidated statements of cash flows have been revised to conform to this presentation. This had no impact on net income, net income per share or retained earnings.

Cash and cash equivalents includes restricted cash. Restricted cash comprises cash balances required to be maintained with the Federal Reserve Bank, based on customer transaction deposit account levels, and cash balances provided as collateral on derivative and other contracts. See Note 2, “Restrictions on Cash and Cash Equivalents” for additional information.

The Corporation determined that the total amounts of beginning-of-period and end-of-period cash and restricted cash, and the changes in other interest-earning assets presented in the consolidated statements of cash flows in the Form 10-Q’s filed for the periods ended March 31, 2018, June 30, 2018 and September 30, 2018 were immaterially misstated. Total restricted cash balances presented in the footnotes to the consolidated statements of cash flows were properly stated. The immaterial corrections of cash and restricted cash within the consolidated statements of cash flows, as shown in the following tables, had no impact on the amounts of “cash and due from banks” and “interest-bearing deposits with other banks” presented on the consolidated balance sheets.

|  | Three Months Ended<br>March 31 |             | Six Months Ended<br>June 30 |             | Nine Months Ended<br>September 30 |              |
|--|--------------------------------|-------------|-----------------------------|-------------|-----------------------------------|--------------|
|  | 2018                           | 2017        | 2018                        | 2017        | 2018                              | 2017         |
| As Reported:   | (in thousands)                 |             |                             |             |                                   |              |
| Decrease (increase) in other interest-earning assets | \$ 86,760                      | \$ (59,135) | \$ (3,480)                  | \$ (71,845) | \$ (49,225)                       | \$ (376,696) |
| Net cash provided by (used in) investing activities  | 36,715                         | (279,869)   | (217,199)                   | (656,240)   | (478,766)                         | (1,202,312)  |
| Net (decrease) increase in cash and restricted cash  | (8,140)                        | (24,919)    | (1,793)                     | 5,920       | (33,465)                          | (41,112)     |
| Cash and restricted cash - beginning of period       | 108,291                        | 118,763     | 246,726                     | 236,887     | 246,726                           | 236,887      |
| Cash and restricted cash - end of period             | 100,151                        | 93,844      | 244,933                     | 242,807     | 213,261                           | 195,775      |
| As Corrected:  |                                |             |                             |             |                                   |              |
| Decrease (increase) in other interest-earning assets | \$ 59,034                      | \$ (76,087) | \$ 4,312                    | \$ (57,819) | \$ (39,974)                       | \$ (341,385) |
| Net cash provided by (used in) investing activities  | 8,989                          | (296,821)   | (209,407)                   | (642,214)   | (469,515)                         | (1,167,001)  |
| Net (decrease) increase in cash and restricted cash  | (35,866)                       | (41,871)    | 5,999                       | 19,946      | (24,214)                          | (5,801)      |
| Cash and restricted cash - beginning of period       | 159,304                        | 144,812     | 159,304                     | 144,812     | 159,304                           | 144,812      |
| Cash and restricted cash - end of period             | 123,438                        | 102,941     | 165,303                     | 164,758     | 135,090                           | 139,011      |

Effective January 1, 2018 the Corporation adopted 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. The adoption of this update did not have a material impact on the consolidated financial statements.

**Defined Benefit Pension:** Net periodic pension costs are funded based on the requirements of federal laws and regulations. The determination of net periodic pension costs is based on assumptions about future events that will affect the amount and timing of required benefit payments under the plan. These assumptions include demographic assumptions such as retirement age and mortality, a discount rate used to determine the current benefit obligation, form of payment election and a long-term expected rate of return on plan assets. Net periodic pension expense includes interest cost, based on the assumed discount rate, an expected return on plan assets, amortization of prior service cost or credit and amortization of net actuarial gains or losses. For the Corporation, there is no service cost as the plan was curtailed in 2008, with no additional benefits accruing. Net periodic pension cost is recognized in salaries and employee benefits on the consolidated statements of income.

In March 2017, the FASB issued ASC Update No. 2017-07, "Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement 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 allows only the service cost component of net benefit cost to be eligible for capitalization. This update was effective for interim and annual reporting periods beginning after December 15, 2017. The Corporation adopted this standards update effective with its March 31, 2018 quarterly report on Form 10-Q and the adoption of this update did not have a material impact on its consolidated financial statements.

## Recently Issued Accounting Standards:

| Standard   | Description  | Date of Anticipated Adoption | Effect on Financial Statements  |
|--|--|------------------------------|---|
| <p>ASC Update 2016-02 Leases (Topic 842)</p>   | <p>This update requires a lessee to recognize for all leases with an initial term greater than twelve months: (1) a "right-of-use" asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term; and (2) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis. ASC Update 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018. In July 2018, the FASB also issued amendments to ASC Update 2016-02 (ASC Updates 2018-10 and 2018-11), which allow for an alternative transition method that eliminates the requirement to restate the earliest prior period presented in an entity's financial statements. Entities that elect this transition method still adopt ASC Update 2016-02 using the modified retrospective transition method, but they recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption rather than in the earliest period presented. In December of 2018, the FASB issued an additional amendment to this update (ASC Update 2018-20) which narrows the scope on sales taxes and other similar taxes collected from lessees, certain lessor costs and recognition of variable payments for contracts with lease and nonlease components.</p> <p>This update requires lessors to classify leases as a sales-type, direct financing or operating. Substantially all of the Corporation's leasing activities as lessor are under direct financing leases and it does not expect the new standard to have a material effect on its financial statements related to these leases.</p> | <p>First Quarter 2019</p>    | <p>The Corporation is adopting this update effective with its March 31, 2020 quarterly report on Form 10-Q using the alternative transition method. The Corporation applied the package of practical expedients permitted within the new standard, which, among other things, allows it to carryforward the historical lease classification, initial direct costs for leases that commenced before the effective date, and the ability to use hindsight in evaluating lessee options to extend or terminate a lease or to purchase the underlying asset.</p> <p>Based on preliminary evaluation, the right-of-use asset and corresponding lease obligation liability, are each expected to be between \$105 million to \$115 million at adoption. The Corporation will continue to evaluate other impacts of adoption but does not anticipate these to be material.</p>   |
| <p>ASC Update 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</p> | <p>The new impairment model prescribed by this standards update is a single impairment model for all financial assets (i.e., loans and held to maturity 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 under current U.S. GAAP. This update also requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. This adjustment will also be recognized in regulatory capital. This update is effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted.</p> <p>In November 2018, the FASB issued ASC Update 2018-19, "Codifications Improvements to Topic 326, Financial Instruments - Credit Losses" which clarifies that receivables arising from operating leases are accounted for using lease guidance and not as financial instruments.</p>   | <p>First Quarter of 2020</p> | <p>The Corporation intends to adopt these standards updates effective with its March 31, 2020 quarterly report on Form 10-Q. The Corporation is currently evaluating the impact of the adoption of this update on its consolidated financial statements and disclosures. While the Corporation is currently unable to reasonably estimate the impact of this update, it expects that the impact of adoption could be significantly influenced by the composition, characteristics and quality of its loan portfolio as well as the prevailing economic conditions and forecasts as of the adoption date. The Corporation's steering committee and working group, which are comprised of individuals from various functional areas, are assessing processes, portfolio segmentation, systems requirements and solutions and resources to implement this new accounting standard. Current activities also include data gathering and building loss models. The Corporation anticipates it will begin full parallel runs of the new processes and controls in mid-2019. In addition, the Corporation has engaged a third-party consultant to assist with these implementation efforts.</p> |



| Standard  | Description  | Date of Anticipated Adoption   | Effect on Financial Statements   |
|---|--|--|--|
| ASC Update 2017-04 Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment   | The FASB issued this update to simplify the subsequent quantitative measurement of goodwill by eliminating Step 2 of the goodwill impairment test. Instead, 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 amounts 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. This update is effective for annual or interim goodwill impairment tests in reporting periods beginning after December 15, 2019. Early adoption is permitted. | Fourth Quarter of 2020, in line with its annual impairment testing in October of each year | The Corporation does not expect the adoption of this update to have a material impact on its consolidated financial statements. The Corporation has not been required to perform step 2 since its 2012 impairment testing.   |
| ASC Update 2018-13 Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement   | This update changes the fair value measurement disclosure requirements of ASC Topic 820 "Fair Value Measurement." Among other things, the update modifies the disclosure objective paragraphs of ASC 820 to eliminate: (1) "at a minimum" from the phrase "an entity shall disclose at a minimum;" and (2) other similar disclosure requirements to promote the appropriate exercise of discretion by entities.  | First Quarter 2020   | The Corporation intends to adopt this standards update effective with its March 31, 2020 quarterly report on Form 10-Q. This standard will impact the Corporation's Fair Value Measurement disclosure but the Corporation does not expect the adoption of this update to have a material impact on its consolidated financial statements.              |
| ASC Update 2018-14 Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans              | This update amends ASC Topic 715-20 to add, remove, and clarify disclosure requirements related to defined benefit pension and other postretirement plans. This update is effective for annual reporting periods beginning after December 15, 2020. Early adoption is permitted.   | First Quarter 2021   | The Corporation intends to adopt this standards update effective with its March 31, 2021 quarterly report on Form 10-Q. This standard will impact the Corporation's disclosure relating to employee benefit plans, but the Corporation does not expect the adoption of this update to have a material impact on its consolidated financial statements. |
| ASC Update 2018-15 Intangibles - Goodwill and Other - Internal Use Software (Topic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract | This update requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC Subtopic 350-40 to determine which implementation costs to capitalize as assets. This update is effective for annual or interim reporting periods beginning after December 15, 2019. Early adoption is permitted.  | First Quarter 2020   | The Corporation intends to adopt this standards update effective with its March 31, 2020 quarterly report on Form 10-Q and does not expect the adoption of this update to have an impact on its consolidated financial statements.   |

**Reclassifications:** Certain amounts in the 2017 and 2016 consolidated financial statements and notes have been reclassified to conform to the 2018 presentation. On the Consolidated Statements of Cash Flows, the net change in tax credit investments is presented as cash flows from investing activities. Prior to 2018, these cash flows were presented as cash flows from operating activities, included in the net increase (decrease) in other liabilities. The presentation of the cash flows for the years ended December 31, 2017 and 2016 were changed to conform to this presentation, resulting in a \$28.9 million and \$40.7 million decrease, respectively, in net cash flows used in investing activities and a corresponding increase in net cash flows provided by operating activities. The change had no impact on net income or retained earnings.

## NOTE 2 – RESTRICTIONS ON CASH AND CASH EQUIVALENTS

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, 2018 and 2017 were \$156.8 million and \$124.4 million, respectively.

In addition, collateral is posted by the Corporation with counterparties to secure derivative contracts and other contracts, which are included in "interest-bearing deposits with other banks". The amounts of such collateral as of December 31, 2018 and 2017 were \$45.1 million and \$14.0 million, respectively.

## NOTE 3 – INVESTMENT SECURITIES

The following tables present the amortized cost and estimated fair values of investment securities, as of December 31:

|   | Amortized<br>Cost   | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|---|---------------------|------------------------------|-------------------------------|----------------------------|
|   | (in thousands)      |                              |                               |                            |
| <b>2018</b>                                       |                     |                              |                               |                            |
| <b>Available for Sale</b>                         |                     |                              |                               |                            |
| U.S. Government sponsored agency securities ..... | \$ 31,586           | \$ 185                       | \$ (139)                      | \$ 31,632                  |
| State and municipal securities .....              | 282,383             | 2,178                        | (5,466)                       | 279,095                    |
| Corporate debt securities .....                   | 111,454             | 1,432                        | (3,353)                       | 109,533                    |
| Collateralized mortgage obligations.....          | 841,294             | 2,758                        | (11,972)                      | 832,080                    |
| Residential mortgage-backed securities .....      | 476,973             | 1,583                        | (15,212)                      | 463,344                    |
| Commercial mortgage-backed securities .....       | 264,165             | 524                          | (3,073)                       | 261,616                    |
| Auction rate securities .....                     | 107,410             | —                            | (4,416)                       | 102,994                    |
| Total .....                                       | <u>\$ 2,115,265</u> | <u>\$ 8,660</u>              | <u>\$ (43,631)</u>            | <u>\$ 2,080,294</u>        |
| <b>Held to Maturity</b>                           |                     |                              |                               |                            |
| State and municipal securities .....              | \$ 156,134          | \$ 1,166                     | \$ (93)                       | \$ 157,207                 |
| Residential mortgage-backed securities .....      | 450,545             | 3,667                        | —                             | 454,212                    |
| Total .....                                       | <u>\$ 606,679</u>   | <u>\$ 4,833</u>              | <u>\$ (93)</u>                | <u>\$ 611,419</u>          |
| <b>2017</b>                                       |                     |                              |                               |                            |
| <b>Available for Sale</b>                         |                     |                              |                               |                            |
| 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>        |

On August 1, 2018, the Corporation transferred debt securities with an amortized cost of \$665.5 million and an estimated fair value of \$641.7 million from the available for sale classification to the held to maturity classification. These securities consisted of residential mortgage-backed securities (\$505.5 million amortized cost and \$485.3 million estimated fair value) and state and municipal securities (\$160.0 million amortized cost and \$156.4 million estimated fair value) and were transferred as the Corporation has the positive intent and ability to hold these securities to maturity. The transfer of debt securities into the held to maturity category from the available for sale category was recorded at fair value on the date of transfer. The net unrealized gains or losses at the transfer date are included in AOCI and are being amortized over the remaining lives of the securities. This amortization is

expected to offset the amortization of the related premium or discount created by the investment securities transfer into the held to maturity classification, with no expected impact on future net income.

Securities carried at \$973.4 million at December 31, 2018 and \$1.8 billion at December 31, 2017, 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, 2018, 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.

|   | Available for Sale  |                      | Held to Maturity  |                      |
|---|---------------------|----------------------|-------------------|----------------------|
|   | Amortized Cost      | Estimated Fair Value | Amortized Cost    | Estimated Fair Value |
|   | (in thousands)      |                      |                   |                      |
| Due in one year or less.....                                | \$ 6,738            | \$ 6,740             | \$ —              | \$ —                 |
| Due from one year to five years.....                        | 69,672              | 70,182               | —                 | —                    |
| Due from five years to ten years.....                       | 108,091             | 106,709              | —                 | —                    |
| Due after ten years.....                                    | 348,332             | 339,623              | 156,134           | 157,207              |
|   | <u>532,833</u>      | <u>523,254</u>       | <u>156,134</u>    | <u>157,207</u>       |
| Residential mortgage-backed securities <sup>(1)</sup> ..... | 476,973             | 463,344              | 450,545           | 454,212              |
| Commercial mortgage-backed securities <sup>(1)</sup> .....  | 841,294             | 832,080              | —                 | —                    |
| Collateralized mortgage obligations <sup>(1)</sup> .....    | 264,165             | 261,616              | —                 | —                    |
| Total.....  | <u>\$ 2,115,265</u> | <u>\$ 2,080,294</u>  | <u>\$ 606,679</u> | <u>\$ 611,419</u>    |

<sup>(1)</sup> 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)       |                       |                    |
| <b>2018:</b>           |                      |                       |                    |
| Equity securities..... | \$ 9                 | \$ —                  | \$ 9               |
| Debt securities.....   | 1,656                | (1,628)               | 28                 |
| Total.....             | <u>\$ 1,665</u>      | <u>\$ (1,628)</u>     | <u>\$ 37</u>       |
| <b>2017:</b>           |                      |                       |                    |
| 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>    |
| <b>2016:</b>           |                      |                       |                    |
| Equity securities..... | \$ 2,005             | \$ (10)               | \$ 1,995           |
| Debt securities.....   | 581                  | (26)                  | 555                |
| Total.....             | <u>\$ 2,586</u>      | <u>\$ (36)</u>        | <u>\$ 2,550</u>    |

The cumulative balance of credit-related other-than-temporary impairment charges, previously recognized as components of earnings, for debt securities held by the Corporation at December 31, 2018, 2017 and 2016 was \$11.5 million. There were no other-than-temporary impairment charges recognized for the years ended December 31, 2018, 2017 and 2016.

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, 2018.

|   | Less Than 12 months  |                      |                   | 12 Months or Longer  |                      |                   | Total                |                   |
|---|----------------------|----------------------|-------------------|----------------------|----------------------|-------------------|----------------------|-------------------|
|   | Number of Securities | Estimated Fair Value | Unrealized Losses | Number of Securities | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses |
|   | (in thousands)       |                      |                   |                      |                      |                   |                      |                   |
| <b>Available for Sale</b>                         |                      |                      |                   |                      |                      |                   |                      |                   |
| U.S. Government sponsored agency securities ..... | 1                    | \$ 4,961             | \$ (31)           | 1                    | \$ 5,770             | \$ (108)          | \$ 10,731            | \$ (139)          |
| State and municipal securities .....              | 33                   | 72,950               | (1,292)           | 38                   | 83,770               | (4,174)           | 156,720              | (5,466)           |
| Corporate debt securities .....                   | 8                    | 24,419               | (227)             | 14                   | 25,642               | (3,126)           | 50,061               | (3,353)           |
| Collateralized mortgage obligations.....          | 39                   | 136,563              | (1,050)           | 89                   | 388,173              | (10,922)          | 524,736              | (11,972)          |
| Residential mortgage-backed securities            | 17                   | 18,220               | (222)             | 110                  | 402,779              | (14,990)          | 420,999              | (15,212)          |
| Commercial mortgage-backed securities .....       | 1                    | 9,778                | (35)              | 25                   | 197,326              | (3,038)           | 207,104              | (3,073)           |
| Auction rate securities .....                     | —                    | —                    | —                 | 177                  | 102,994              | (4,416)           | 102,994              | (4,416)           |
| Total available for sale                          | 99                   | \$ 266,891           | \$ (2,857)        | 454                  | \$ 1,206,454         | \$ (40,774)       | \$ 1,473,345         | \$ (43,631)       |
| <b>Held to Maturity</b>                           |                      |                      |                   |                      |                      |                   |                      |                   |
| State and municipal securities .....              | 6                    | \$ 20,601            | \$ (93)           | —                    | \$ —                 | \$ —              | \$ 20,601            | \$ (93)           |
| Total held to maturity                            | 6                    | \$ 20,601            | \$ (93)           | —                    | \$ —                 | \$ —              | \$ 20,601            | \$ (93)           |

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, 2017.

|   | Less Than 12 months  |                      |                   | 12 Months or Longer  |                      |                   | Total                |                   |
|---|----------------------|----------------------|-------------------|----------------------|----------------------|-------------------|----------------------|-------------------|
|   | Number of Securities | Estimated Fair Value | Unrealized Losses | Number of Securities | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses |
|   | (in thousands)       |                      |                   |                      |                      |                   |                      |                   |
| <b>Available for Sale</b>                         |                      |                      |                   |                      |                      |                   |                      |                   |
| U.S. Government sponsored agency securities ..... | 2                    | \$ 5,830             | \$ (26)           | —                    | \$ —                 | \$ —              | \$ 5,830             | \$ (26)           |
| State and municipal securities .....              | 4                    | 11,650               | (50)              | 48                   | 118,297              | (2,499)           | 129,947              | (2,549)           |
| Corporate debt securities .....                   | 1                    | 4,544                | (48)              | 19                   | 32,163               | (1,828)           | 36,707               | (1,876)           |
| Collateralized mortgage obligations.....          | 60                   | 303,932              | (2,408)           | 57                   | 187,690              | (7,387)           | 491,622              | (9,795)           |
| Residential mortgage-backed securities            | 116                  | 511,378              | (4,348)           | 89                   | 500,375              | (10,893)          | 1,011,753            | (15,241)          |
| Commercial mortgage-backed securities .....       | 22                   | 190,985              | (2,118)           | 3                    | 21,770               | (478)             | 212,755              | (2,596)           |
| Auction rate securities .....                     | —                    | —                    | —                 | 177                  | 98,668               | (8,742)           | 98,668               | (8,742)           |
| Total .....                                       | 205                  | \$ 1,028,319         | \$ (8,998)        | 393                  | \$ 958,963           | \$ (31,827)       | \$ 1,987,282         | \$ (40,825)       |

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, 2018.

As of December 31, 2018, all 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, 2018. 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.

Based on management's evaluations, no corporate debt securities were subject to any other-than-temporary impairment charges as of December 31, 2018. 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>2018</u>          | <u>2017</u>          |
|---|----------------------|----------------------|
|   | (in thousands)       |                      |
| Real estate – commercial mortgage .....                   | \$ 6,434,285         | \$ 6,364,804         |
| Commercial – industrial, financial and agricultural ..... | 4,404,548            | 4,300,297            |
| Real estate – residential mortgage .....                  | 2,251,044            | 1,954,711            |
| Real estate – home equity .....                           | 1,452,137            | 1,559,719            |
| Real estate – construction .....                          | 916,599              | 1,006,935            |
| Consumer .....  | 419,186              | 313,783              |
| Leasing and other .....                                   | 311,866              | 291,556              |
| Overdrafts .....  | 2,774                | 4,113                |
| Loans, gross of unearned income .....                     | <u>16,192,439</u>    | 15,795,918           |
| Unearned income .....                                     | <u>(26,639)</u>      | (27,671)             |
| Loans, net of unearned income .....                       | <u>\$ 16,165,800</u> | <u>\$ 15,768,247</u> |

The Corporation has extended credit to 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 \$116.4 million and \$113.6 million as of December 31, 2018 and 2017, respectively. During 2018, additions totaled \$54.6 million and repayments totaled \$51.8 million in related-party loans.

The total portfolio of mortgage loans serviced by the Corporation for unrelated third parties was \$4.8 billion and \$4.6 billion as of December 31, 2018 and 2017, respectively.

##### *Allowance for Credit Losses*

The following table presents the components of the allowance for credit losses as of December 31:

|  | <u>2018</u>       | <u>2017</u>       | <u>2016</u>       |
|--|-------------------|-------------------|-------------------|
|  | (in thousands)    |                   |                   |
| Allowance for loan losses .....                | \$ 160,537        | \$ 169,910        | \$ 168,679        |
| Reserve for unfunded lending commitments ..... | 8,873             | 6,174             | 2,646             |
| Allowance for credit losses .....              | <u>\$ 169,410</u> | <u>\$ 176,084</u> | <u>\$ 171,325</u> |

The following table presents the activity in the allowance for credit losses for the years ended December 31:

|   | 2018              | 2017              | 2016              |
|---|-------------------|-------------------|-------------------|
|   | (in thousands)    |                   |                   |
| Balance at beginning of year.....               | \$ 176,084        | \$ 171,325        | \$ 171,412        |
| Loans charged off.....                          | (66,076)          | (33,290)          | (33,927)          |
| Recoveries of loans previously charged off..... | 12,495            | 14,744            | 20,658            |
| Net loans charged off.....                      | (53,581)          | (18,546)          | (13,269)          |
| Provision for credit losses.....                | 46,907            | 23,305            | 13,182            |
| Balance at end of year.....                     | <u>\$ 169,410</u> | <u>\$ 176,084</u> | <u>\$ 171,325</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 -<br>Commercial<br>Mortgage | Commercial -<br>Industrial,<br>Financial and<br>Agricultural | Real Estate -<br>Home<br>Equity | Real Estate -<br>Residential<br>Mortgage | Real Estate -<br>Construction | Consumer        | Leasing<br>and other<br>and<br>Overdrafts | Unallocated | Total             |
|--|---|--|---------------------------------|--|-------------------------------|-----------------|---|-------------|-------------------|
|  | (in thousands)                          |  |                                 |  |                               |                 |   |             |                   |
| 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<br>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 <sup>(1)</sup> .....     | 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           |
| Loans charged off.....                             | (2,045)                                 | (52,441)   | (3,087)                         | (1,574)                                  | (1,368)                       | (3,040)         | (2,521)                                   | —           | (66,076)          |
| Recoveries of loans previously charged<br>off..... | 1,622                                   | 4,994  | 1,127                           | 620                                      | 1,829                         | 1,266           | 1,037                                     | —           | 12,495            |
| Net loans charged off.....                         | (423)                                   | (47,447)   | (1,960)                         | (954)                                    | 461                           | (1,774)         | (1,484)                                   | —           | (53,581)          |
| Provision for loan losses <sup>(1)</sup> .....     | (5,481)                                 | 40,035   | 2,744                           | 3,787                                    | (2,020)                       | 2,946           | 2,197                                     | —           | 44,208            |
| Balance at December 31, 2018.....                  | <u>\$ 52,889</u>                        | <u>\$ 58,868</u>   | <u>\$ 18,911</u>                | <u>\$ 18,921</u>                         | <u>\$ 5,061</u>               | <u>\$ 3,217</u> | <u>\$ 2,670</u>                           | <u>\$ —</u> | <u>\$ 160,537</u> |

**Allowance for loan losses at December 31, 2018**

|   |                  |                  |                  |                  |                 |                 |                 |             |                   |
|---|------------------|------------------|------------------|------------------|-----------------|-----------------|-----------------|-------------|-------------------|
| Loans collectively evaluated for<br>impairment..... | \$ 45,634        | \$ 46,355        | \$ 8,541         | \$ 9,527         | \$ 4,268        | \$ 3,210        | \$ 2,670        | \$ —        | \$ 120,205        |
| Loans individually evaluated for<br>impairment..... | 7,255            | 12,513           | 10,370           | 9,394            | 793             | 7               | —               | N/A         | 40,332            |
|   | <u>\$ 52,889</u> | <u>\$ 58,868</u> | <u>\$ 18,911</u> | <u>\$ 18,921</u> | <u>\$ 5,061</u> | <u>\$ 3,217</u> | <u>\$ 2,670</u> | <u>\$ —</u> | <u>\$ 160,537</u> |

**Loans, net of unearned income at December 31, 2018**

|   |                     |                     |                     |                     |                   |                   |                   |            |                      |
|---|---------------------|---------------------|---------------------|---------------------|-------------------|-------------------|-------------------|------------|----------------------|
| Loans collectively evaluated for<br>impairment..... | \$ 6,388,212        | \$ 4,349,255        | \$ 1,428,764        | \$ 2,212,274        | \$ 909,209        | \$ 419,175        | \$ 268,733        | N/A        | \$ 15,975,622        |
| Loans individually evaluated for<br>impairment..... | 46,073              | 55,293              | 23,373              | 38,770              | 7,390             | 11                | 19,268            | N/A        | 190,178              |
|   | <u>\$ 6,434,285</u> | <u>\$ 4,404,548</u> | <u>\$ 1,452,137</u> | <u>\$ 2,251,044</u> | <u>\$ 916,599</u> | <u>\$ 419,186</u> | <u>\$ 288,001</u> | <u>N/A</u> | <u>\$ 16,165,800</u> |

**Allowance for loan losses at December 31, 2017**

|   |                  |                  |                  |                  |                 |                 |                 |             |                   |
|---|------------------|------------------|------------------|------------------|-----------------|-----------------|-----------------|-------------|-------------------|
| Loans collectively evaluated for<br>impairment..... | \$ 50,681        | \$ 54,874        | \$ 7,003         | \$ 6,193         | \$ 5,653        | \$ 2,028        | \$ 1,957        | \$ —        | \$ 128,389        |
| Loans individually evaluated for<br>impairment..... | 8,112            | 11,406           | 11,124           | 9,895            | 967             | 17              | —               | N/A         | 41,521            |
|   | <u>\$ 58,793</u> | <u>\$ 66,280</u> | <u>\$ 18,127</u> | <u>\$ 16,088</u> | <u>\$ 6,620</u> | <u>\$ 2,045</u> | <u>\$ 1,957</u> | <u>\$ —</u> | <u>\$ 169,910</u> |

**Loans, net of unearned income at December 31, 2017**

|   |                     |                     |                     |                     |                     |                   |                   |            |                      |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|-------------------|-------------------|------------|----------------------|
| Loans collectively evaluated for<br>impairment..... | \$ 6,316,023        | \$ 4,236,572        | \$ 1,535,026        | \$ 1,913,004        | \$ 994,738          | \$ 313,757        | \$ 267,998        | N/A        | \$ 15,577,118        |
| Loans individually evaluated for<br>impairment..... | 48,781              | 63,725              | 24,693              | 41,707              | 12,197              | 26                | —                 | N/A        | 191,129              |
|   | <u>\$ 6,364,804</u> | <u>\$ 4,300,297</u> | <u>\$ 1,559,719</u> | <u>\$ 1,954,711</u> | <u>\$ 1,006,935</u> | <u>\$ 313,783</u> | <u>\$ 267,998</u> | <u>N/A</u> | <u>\$ 15,768,247</u> |

- (1) For the year ended December 31, 2018, the provision for loan losses excluded a \$2.7 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 \$46.9 million for the year ended December 31, 2018. 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 was \$23.3 million for the year ended December 31, 2017.

N/A – Not applicable.

Impaired Loans

The following table presents total impaired loans by class segment as of December 31:

|  | 2018                           |                        |                      | 2017                           |                        |                      |
|--|--------------------------------|------------------------|----------------------|--------------------------------|------------------------|----------------------|
|  | Unpaid<br>Principal<br>Balance | Recorded<br>Investment | Related<br>Allowance | Unpaid<br>Principal<br>Balance | Recorded<br>Investment | Related<br>Allowance |
|  | (in thousands)                 |                        |                      |                                |                        |                      |
| <u>With no related allowance recorded:</u> |                                |                        |                      |                                |                        |                      |
| Real estate - commercial mortgage .....    | \$ 25,095                      | \$ 23,481              | \$ —                 | \$ 26,728                      | \$ 22,886              | \$ —                 |
| Commercial .....                           | 33,493                         | 26,585                 | —                    | 44,936                         | 39,550                 | —                    |
| Real estate - residential mortgage .....   | 3,149                          | 3,149                  | —                    | 4,575                          | 4,575                  | —                    |
| Construction .....                         | 8,980                          | 5,083                  | —                    | 12,477                         | 8,100                  | —                    |
| Leasing .....                              | 19,269                         | 19,268                 | —                    | —                              | —                      | —                    |
|  | <b>89,986</b>                  | <b>77,566</b>          |                      | <b>88,716</b>                  | <b>75,111</b>          |                      |
| <u>With a related allowance recorded:</u>  |                                |                        |                      |                                |                        |                      |
| Real estate - commercial mortgage .....    | 29,005                         | 22,592                 | 7,255                | 33,710                         | 25,895                 | 8,112                |
| Commercial .....                           | 37,706                         | 28,708                 | 12,513               | 29,816                         | 24,175                 | 11,406               |
| Real estate - home equity .....            | 26,599                         | 23,373                 | 10,370               | 28,282                         | 24,693                 | 11,124               |
| Real estate - residential mortgage .....   | 39,972                         | 35,621                 | 9,394                | 42,597                         | 37,132                 | 9,895                |
| Construction .....                         | 5,984                          | 2,307                  | 793                  | 7,308                          | 4,097                  | 967                  |
| Consumer .....                             | 11                             | 11                     | 7                    | 26                             | 26                     | 17                   |
|  | <b>139,277</b>                 | <b>112,612</b>         | <b>40,332</b>        | <b>141,739</b>                 | <b>116,018</b>         | <b>41,521</b>        |
| Total .....                                | <b>\$ 229,263</b>              | <b>\$ 190,178</b>      | <b>\$ 40,332</b>     | <b>\$ 230,455</b>              | <b>\$ 191,129</b>      | <b>\$ 41,521</b>     |

As of December 31, 2018 and 2017, there were \$77.6 million and \$75.1 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:

|  | 2018                        |   | 2017                        |   | 2016                        |   |
|--|-----------------------------|---|-----------------------------|---|-----------------------------|---|
|  | Average Recorded Investment | Interest Income Recognized <sup>(1)</sup> | Average Recorded Investment | Interest Income Recognized <sup>(1)</sup> | Average Recorded Investment | Interest Income Recognized <sup>(1)</sup> |
| (in thousands)                             |                             |   |                             |   |                             |   |
| <u>With no related allowance recorded:</u> |                             |   |                             |   |                             |   |
| Real estate - commercial mortgage .....    | \$ 25,258                   | \$ 368                                    | \$ 22,793                   | \$ 281                                    | \$ 24,232                   | \$ 294                                    |
| Commercial .....                           | 33,395                      | 259                                       | 31,357                      | 182                                       | 19,825                      | 104                                       |
| Real estate - residential mortgage .....   | 3,727                       | 91  | 4,631                       | 107                                       | 5,598                       | 126                                       |
| Construction .....                         | 6,943                       | —   | 7,255                       | 12  | 6,285                       | 48  |
|  | <b>69,323</b>               | <b>718</b>                                | <b>66,036</b>               | <b>582</b>                                | <b>55,940</b>               | <b>572</b>                                |
| <u>With a related allowance recorded:</u>  |                             |   |                             |   |                             |   |
| Real estate - commercial mortgage .....    | 24,300                      | 345                                       | 27,193                      | 338                                       | 31,737                      | 384                                       |
| Commercial .....                           | 24,888                      | 185                                       | 24,112                      | 137                                       | 26,744                      | 134                                       |
| Real estate - home equity .....            | 24,426                      | 794                                       | 21,704                      | 534                                       | 17,912                      | 285                                       |
| Real estate - residential mortgage .....   | 36,387                      | 896                                       | 39,093                      | 903                                       | 42,191                      | 908                                       |
| Construction .....                         | 2,683                       | —   | 6,160                       | 11  | 6,501                       | 41  |
| Consumer .....                             | 16                          | 1   | 33                          | 2   | 33                          | 2   |
| Leasing, other and overdrafts .....        | 3,854                       | —   | 285                         | —   | 854                         | —   |
|  | <b>116,554</b>              | <b>2,221</b>                              | <b>118,580</b>              | <b>1,925</b>                              | <b>125,972</b>              | <b>1,754</b>                              |
| <b>Total.....</b>                          | <b>\$ 185,877</b>           | <b>\$ 2,939</b>                           | <b>\$ 184,616</b>           | <b>\$ 2,507</b>                           | <b>\$ 181,912</b>           | <b>\$ 2,326</b>                           |

(1) All impaired loans, excluding accruing TDRs, were non-accrual loans. Interest income recognized for the years ended December 31, 2018, 2017 and 2016 represents amounts earned on accruing TDRs.



*Credit Quality Indicators and Non-performing Assets*

The following table presents internal credit risk ratings for the indicated loan class segments as of December 31:

|   | Pass          |               | Special Mention |            | Substandard or Lower |            | Total         |               |
|---|---------------|---------------|-----------------|------------|----------------------|------------|---------------|---------------|
|   | 2018          | 2017          | 2018            | 2017       | 2018                 | 2017       | 2018          | 2017          |
| (dollars in thousands)  |               |               |                 |            |                      |            |               |               |
| Real estate - commercial mortgage .....                       | \$ 6,129,463  | \$ 6,066,396  | \$ 170,827      | \$ 147,604 | \$ 133,995           | \$ 150,804 | \$ 6,434,285  | \$ 6,364,804  |
| Commercial - secured .....                                    | 3,902,484     | 3,831,485     | 193,470         | 121,842    | 129,026              | 179,113    | 4,224,980     | 4,132,440     |
| Commercial -unsecured .....                                   | 171,589       | 159,620       | 4,016           | 5,478      | 3,963                | 2,759      | 179,568       | 167,857       |
| Total commercial - industrial, financial and agricultural ... | 4,074,073     | 3,991,105     | 197,486         | 127,320    | 132,989              | 181,872    | 4,404,548     | 4,300,297     |
| Construction - commercial residential .....                   | 104,079       | 143,759       | 6,912           | 5,259      | 6,881                | 14,084     | 117,872       | 163,102       |
| Construction - commercial .....                               | 723,030       | 761,218       | 1,163           | 846        | 2,533                | 3,752      | 726,726       | 765,816       |
| Total construction (excluding construction - other) .....     | 827,109       | 904,977       | 8,075           | 6,105      | 9,414                | 17,836     | 844,598       | 928,918       |
| Total .....   | \$ 11,030,645 | \$ 10,962,478 | \$ 376,388      | \$ 281,029 | \$ 276,398           | \$ 350,512 | \$ 11,683,431 | \$ 11,594,019 |
| % of Total .....  | 94.4%         | 94.6%         | 3.2%            | 2.4%       | 2.4%                 | 3.0%       | 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 <sup>(1)</sup> |           | Non-performing <sup>(2)</sup> |           | Total        |              |
|--|--------------|--------------|---------------------------|-----------|-------------------------------|-----------|--------------|--------------|
|  | 2018         | 2017         | 2018                      | 2017      | 2018                          | 2017      | 2018         | 2017         |
| (dollars in thousands)                   |              |              |                           |           |                               |           |              |              |
| Real estate - home equity .....          | \$ 1,431,666 | \$ 1,535,557 | \$ 10,702                 | \$ 12,655 | \$ 9,769                      | \$ 11,507 | \$ 1,452,137 | \$ 1,559,719 |
| Real estate - residential mortgage ..... | 2,202,955    | 1,914,888    | 28,988                    | 18,852    | 19,101                        | 20,971    | 2,251,044    | 1,954,711    |
| Real estate - construction - other ..... | 71,511       | 77,403       | —                         | 203       | 490                           | 411       | 72,001       | 78,017       |
| Consumer - direct .....                  | 55,629       | 54,828       | 338                       | 315       | 66                            | 70        | 56,033       | 55,213       |
| Consumer - indirect .....                | 359,405      | 254,663      | 3,405                     | 3,681     | 343                           | 226       | 363,153      | 258,570      |
| Total consumer .....                     | 415,034      | 309,491      | 3,743                     | 3,996     | 409                           | 296       | 419,186      | 313,783      |
| Leasing, other and overdrafts .....      | 267,112      | 267,111      | 1,302                     | 855       | 19,587                        | 32        | 288,001      | 267,998      |
| Total .....                              | \$ 4,388,278 | \$ 4,104,450 | \$ 44,735                 | \$ 36,561 | \$ 49,356                     | \$ 33,217 | \$ 4,482,369 | \$ 4,174,228 |
| % of Total .....                         | 97.9%        | 98.3%        | 1.0%                      | 0.9%      | 1.1%                          | 0.8%      | 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:

|   | 2018       | 2017       |
|---|------------|------------|
| (in thousands)  |            |            |
| Non-accrual loans .....                                 | \$ 128,572 | \$ 124,749 |
| Loans 90 days or more past due and still accruing ..... | 11,106     | 10,010     |
| Total non-performing loans .....                        | 139,678    | 134,759    |
| Other real estate owned .....                           | 10,518     | 9,823      |
| Total non-performing assets .....                       | \$ 150,196 | \$ 144,582 |

The following table presents past due status and non-accrual loans, by portfolio segment and class segment, as of December 31:

|  | 2018                      |                           |  |                 |               |               |
|--|---------------------------|---------------------------|--|-----------------|---------------|---------------|
|  | 30-59<br>Days Past<br>Due | 60-89<br>Days Past<br>Due | ≥ 90 Days<br>Past Due<br>and<br>Accruing | Non-<br>accrual | Current       | Total         |
|  | (in thousands)            |                           |  |                 |               |               |
| Real estate - commercial mortgage.....                         | \$ 12,206                 | \$ 1,500                  | \$ 1,765                                 | \$ 30,388       | \$ 6,388,426  | \$ 6,434,285  |
| Commercial - secured.....                                      | 5,227                     | 938                       | 1,068                                    | 49,299          | 4,168,448     | 4,224,980     |
| Commercial - unsecured.....                                    | 1,598                     | —                         | 51                                       | 851             | 177,068       | 179,568       |
| Total Commercial - industrial, financial and agricultural..... | 6,825                     | 938                       | 1,119                                    | 50,150          | 4,345,516     | 4,404,548     |
| Real estate - home equity.....                                 | 7,144                     | 3,558                     | 3,061                                    | 6,708           | 1,431,666     | 1,452,137     |
| Real estate - residential mortgage.....                        | 20,796                    | 8,192                     | 4,433                                    | 14,668          | 2,202,955     | 2,251,044     |
| Construction - commercial.....                                 | —                         | —                         | —  | 19              | 726,707       | 726,726       |
| Construction - commercial residential.....                     | 2,489                     | —                         | —  | 6,881           | 108,502       | 117,872       |
| Construction - other.....                                      | —                         | —                         | —  | 490             | 71,511        | 72,001        |
| Total Real estate - construction.....                          | 2,489                     | —                         | —  | 7,390           | 906,720       | 916,599       |
| Consumer - direct.....   | 267                       | 71                        | 66                                       | —               | 55,629        | 56,033        |
| Consumer - indirect.....                                       | 2,908                     | 497                       | 343                                      | —               | 359,405       | 363,153       |
| Total Consumer.....  | 3,175                     | 568                       | 409                                      | —               | 415,034       | 419,186       |
| Leasing, other and overdrafts.....                             | 1,005                     | 297                       | 319                                      | 19,268          | 267,112       | 288,001       |
| Total.....   | \$ 53,640                 | \$ 15,053                 | \$ 11,106                                | \$ 128,572      | \$ 15,957,429 | \$ 16,165,800 |

|  | 2017                      |                           |  |                 |               |               |
|--|---------------------------|---------------------------|--|-----------------|---------------|---------------|
|  | 30-59<br>Days Past<br>Due | 60-89<br>Days Past<br>Due | ≥ 90 Days<br>Past Due<br>and<br>Accruing | Non-<br>accrual | Current       | Total         |
|  | (in thousands)            |                           |  |                 |               |               |
| Real estate - commercial mortgage.....                         | \$ 9,456                  | \$ 4,223                  | \$ 625                                   | \$ 34,822       | \$ 6,315,678  | \$ 6,364,804  |
| Commercial - secured.....                                      | 4,778                     | 5,254                     | 1,360                                    | 52,255          | 4,068,793     | 4,132,440     |
| Commercial - unsecured.....                                    | 305                       | 10                        | 45                                       | 649             | 166,848       | 167,857       |
| Total Commercial - industrial, financial and agricultural..... | 5,083                     | 5,264                     | 1,405                                    | 52,904          | 4,235,641     | 4,300,297     |
| Real estate - home equity.....                                 | 9,640                     | 3,015                     | 2,372                                    | 9,135           | 1,535,557     | 1,559,719     |
| Real estate - residential mortgage.....                        | 11,961                    | 6,891                     | 5,280                                    | 15,691          | 1,914,888     | 1,954,711     |
| Construction - commercial.....                                 | 483                       | —                         | —  | 19              | 765,314       | 765,816       |
| Construction - commercial residential.....                     | —                         | 439                       | —  | 11,767          | 150,896       | 163,102       |
| Construction - other.....                                      | 203                       | —                         | —  | 411             | 77,403        | 78,017        |
| Total Real estate - construction.....                          | 686                       | 439                       | —  | 12,197          | 993,613       | 1,006,935     |
| Consumer - direct.....   | 260                       | 55                        | 70                                       | —               | 54,828        | 55,213        |
| Consumer - indirect.....                                       | 3,055                     | 626                       | 226                                      | —               | 254,663       | 258,570       |
| Total Consumer.....  | 3,315                     | 681                       | 296                                      | —               | 309,491       | 313,783       |
| Leasing, other and overdrafts.....                             | 568                       | 287                       | 32                                       | —               | 267,111       | 267,998       |
| Total.....   | \$ 40,709                 | \$ 20,800                 | \$ 10,010                                | \$ 124,749      | \$ 15,571,979 | \$ 15,768,247 |

The following table presents TDRs as of December 31:

|  | 2018           | 2017      |
|--|----------------|-----------|
|  | (in thousands) |           |
| Real-estate - residential mortgage ..... | \$ 24,102      | \$ 26,016 |
| Real estate - home equity .....          | 16,665         | 15,558    |
| Real-estate - commercial mortgage .....  | 15,685         | 13,959    |
| Commercial .....                         | 5,143          | 10,820    |
| Consumer - direct .....                  | 10             | 26        |
| Total accruing TDRs .....                | 61,605         | 66,379    |
| Non-accrual TDRs <sup>(1)</sup> .....    | 28,659         | 29,051    |
| Total TDRs .....                         | \$ 90,264      | \$ 95,430 |

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

As of December 31, 2018 and 2017, there were \$41,600 and \$8.6 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:

|   | 2018                   |   | 2017               |   | 2016               |   |
|---|------------------------|---|--------------------|---|--------------------|---|
|   | Number<br>of Loans     | Post-<br>Modification<br>Recorded<br>Investment | Number<br>of Loans | Post-<br>Modification<br>Recorded<br>Investment | Number<br>of Loans | Post-<br>Modification<br>Recorded<br>Investment |
|   | (dollars in thousands) |   |                    |   |                    |   |
| <b>Commercial:</b>                            |                        |   |                    |   |                    |   |
| Extend maturity without rate concession.....  | 8                      | \$ 4,226  | 23                 | \$ 15,058                                       | 12                 | \$ 3,904  |
| Bankruptcy.....                               | —                      | —   | 1                  | 490   | —                  | —   |
| <b>Real estate - commercial mortgage:</b>     |                        |   |                    |   |                    |   |
| Extend maturity without rate concession.....  | 6                      | 8,261   | 9                  | 2,899   | —                  | —   |
| Bankruptcy.....                               | —                      | —   | 1                  | 12  | —                  | —   |
| <b>Real estate - home equity:</b>             |                        |   |                    |   |                    |   |
| Extend maturity without rate concession.....  | 85                     | 4,549   | 69                 | 5,843   | 89                 | 4,484   |
| Bankruptcy.....                               | 11                     | 538   | 28                 | 1,813   | 47                 | 2,671   |
| <b>Real estate - residential mortgage:</b>    |                        |   |                    |   |                    |   |
| Extend maturity with rate concession.....     | 4                      | 451   | 2                  | 468   | —                  | —   |
| Extend maturity without rate concession.....  | 2                      | 345   | 5                  | 1,044   | 2                  | 315   |
| Bankruptcy.....                               | 1                      | 5   | 3                  | 392   | 6                  | 981   |
| <b>Construction - commercial residential:</b> |                        |   |                    |   |                    |   |
| Extend maturity without rate concession.....  | —                      | —   | 1                  | 1,204   | —                  | —   |
| Bankruptcy.....                               | —                      | —   | 1                  | 411   | —                  | —   |
| <b>Consumer:</b>                              |                        |   |                    |   |                    |   |
| Bankruptcy.....                               | —                      | —   | —                  | —   | 2                  | 23  |
| Total .....                                   | 117                    | \$ 18,375                                       | 143                | \$ 29,634                                       | 158                | \$ 12,378                                       |

The following table presents TDRs, by class segment, that were modified during the years ended December 31, 2018, 2017 and 2016 that had a post-modification payment default during their respective year of modification. The Corporation defines a payment default as a single missed scheduled payment:

|   | 2018                   |                     | 2017            |                     | 2016            |                     |
|---|------------------------|---------------------|-----------------|---------------------|-----------------|---------------------|
|   | 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                      | 448                 | 2               | 549                 | 1               | 118                 |
| Real estate - residential mortgage .....    | 5                      | 717                 | 5               | 577                 | 8               | 1,500               |
| Commercial .....                            | 1                      | 2,163               | 6               | 1,571               | 7               | 2,523               |
| Real estate - home equity .....             | 30                     | 1,635               | 25              | 1,575               | 28              | 1,836               |
| Consumer .....                              | —                      | —                   | —               | —                   | 1               | 19                  |
| Total .....                                 | <b>38</b>              | <b>\$ 4,963</b>     | <b>40</b>       | <b>\$ 5,875</b>     | <b>45</b>       | <b>\$ 5,996</b>     |

#### NOTE 5 – PREMISES AND EQUIPMENT

The following is a summary of premises and equipment as of December 31:

|   | 2018              | 2017              |
|---|-------------------|-------------------|
|   | (in thousands)    |                   |
| Land .....  | \$ 35,160         | \$ 35,560         |
| Buildings and improvements .....                      | 325,831           | 307,332           |
| Furniture and equipment .....                         | 150,566           | 150,876           |
| Construction in progress .....                        | 24,993            | 19,916            |
|   | <b>536,550</b>    | <b>513,684</b>    |
| Less: Accumulated depreciation and amortization ..... | <b>(302,021)</b>  | <b>(290,882)</b>  |
| Total .....   | <b>\$ 234,529</b> | <b>\$ 222,802</b> |

#### 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, 2018 and 2017. All of the Corporation's reporting units passed the 2018 goodwill impairment test, resulting in no goodwill impairment charges in 2018. All reporting units, with total allocated goodwill of \$530.6 million, had fair values that exceeded net book values by approximately 63% 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:

|   | <b>2018</b>      | 2017             |
|---|------------------|------------------|
|   | (in thousands)   |                  |
| <u>Amortized cost:</u>                          |                  |                  |
| Balance at beginning of year .....              | \$ 37,663        | \$ 38,822        |
| Originations of mortgage servicing rights ..... | 6,756            | 4,968            |
| Amortization expense .....                      | (5,846)          | (6,127)          |
| Balance at end of year.....                     | <u>\$ 38,573</u> | <u>\$ 37,663</u> |
| <u>Valuation allowance:</u>                     |                  |                  |
| Balance at beginning of year .....              | \$ —             | \$ (1,291)       |
| Net deductions to the valuation allowance ..... | —                | 1,291            |
| Balance at end of year.....                     | <u>\$ —</u>      | <u>\$ —</u>      |
| Net MSRs at end of year.....                    | <u>\$ 38,573</u> | <u>\$ 37,663</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 a valuation allowance was no longer necessary as of December 31, 2017 and remained unnecessary at December 31, 2018. 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 \$50.2 million and \$41.6 million as of December 31, 2018 and 2017, respectively.

Total MSR amortization expense, recognized as a reduction to mortgage banking income in the consolidated statements of income, was \$5.8 million and \$6.1 million in 2018 and 2017, respectively. Estimated MSR amortization expense for the next five years, based on balances as of December 31, 2018 and the estimated remaining lives of the underlying loans, follows (in thousands):

| <u>Year</u> |          |
|-------------|----------|
| 2019 .....  | \$ 6,477 |
| 2020 .....  | 6,037    |
| 2021 .....  | 5,549    |
| 2022 .....  | 5,010    |
| 2023 .....  | 4,419    |

## NOTE 8 – DEPOSITS

Deposits consisted of the following as of December 31:

|   | 2018                 | 2017                 |
|---|----------------------|----------------------|
|   | (in thousands)       |                      |
| Noninterest-bearing demand.....         | \$ 4,310,105         | \$ 4,437,294         |
| Interest-bearing demand .....           | 4,240,974            | 4,018,107            |
| Savings and money market accounts ..... | 4,926,937            | 4,586,746            |
| Total demand and savings .....          | 13,478,016           | 13,042,147           |
| Brokered deposits .....                 | 176,239              | 90,473               |
| Time deposits .....                     | 2,721,904            | 2,664,912            |
| Total Deposits.....                     | <u>\$ 16,376,159</u> | <u>\$ 15,797,532</u> |

The scheduled maturities of time deposits as of December 31, 2018 were as follows (in thousands):

| Year             |                     |
|------------------|---------------------|
| 2019 .....       | \$ 1,561,694        |
| 2020 .....       | 667,265             |
| 2021 .....       | 253,314             |
| 2022 .....       | 153,447             |
| 2023 .....       | 31,230              |
| Thereafter ..... | 54,954              |
|                  | <u>\$ 2,721,904</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, 2018 and 2017. Time deposits of \$250,000 or more were \$425.1 million and \$373.9 million as of December 31, 2018 and 2017, respectively.

## NOTE 9 – SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of December 31, 2018, 2017 and 2016 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 |            |            |
|---|-------------------|-------------------|-------------------|---------------------|------------|------------|
|   | 2018              | 2017              | 2016              | 2018                | 2017       | 2016       |
|   | (in thousands)    |                   |                   |                     |            |            |
| Federal funds purchased.....                  | \$ —              | \$ 220,000        | \$ 278,570        | \$ 525,000          | \$ 387,110 | \$ 449,184 |
| Short-term FHLB advances <sup>(1)</sup> ..... | 385,000           | —                 | —                 | 385,000             | 250,000    | —          |
| Customer repurchase agreements.....           | 43,500            | 172,017           | 195,734           | 181,989             | 233,274    | 221,989    |
| Customer short-term promissory notes ...      | 326,277           | 225,507           | 67,013            | 365,689             | 237,298    | 77,887     |
|   | <u>\$ 754,777</u> | <u>\$ 617,524</u> | <u>\$ 541,317</u> |                     |            |            |

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

As of December 31, 2018, the Corporation had aggregate availability under federal funds lines of \$1.3 billion. 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, 2018 and 2017, the Corporation had \$505.2 million and \$617.4 million, respectively, of collateralized borrowing availability at the Discount Window, and no outstanding borrowings.

The following table presents information related to customer repurchase agreements:

|  | 2018                   | 2017       | 2016       |
|--|------------------------|------------|------------|
|  | (dollars in thousands) |            |            |
| Amount outstanding as of December 31 .....             | \$ 43,500              | \$ 172,017 | \$ 195,734 |
| Weighted average interest rate as of December 31 ..... | 0.25%                  | 0.13%      | 0.10%      |
| Average amount outstanding during the year.....        | \$ 138,198             | \$ 188,974 | \$ 184,978 |
| Weighted average interest rate during the year .....   | 0.21%                  | 0.12%      | 0.11%      |

FHLB advances with an original maturity of one year or more and long-term debt included the following as of December 31:

|  | 2018              | 2017                |
|--|-------------------|---------------------|
|  | (in thousands)    |                     |
| FHLB advances .....                                      | \$ 601,978        | \$ 652,113          |
| Subordinated debt .....                                  | 250,000           | 250,000             |
| Senior notes .....                                       | 125,000           | 125,000             |
| Junior subordinated deferrable interest debentures ..... | 16,496            | 16,496              |
| Unamortized discounts and issuance costs .....           | (1,195)           | (5,263)             |
|  | <u>\$ 992,279</u> | <u>\$ 1,038,346</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, 2018 and 2017, 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 bears interest at the 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 2.42%. As of December 31, 2018, the Corporation had additional borrowing capacity of approximately \$2.4 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, 2018 (in thousands):

| Year            |                   |
|-----------------|-------------------|
| 2019 .....      | \$ 252,351        |
| 2020 .....      | 142,173           |
| 2021 .....      | 199,237           |
| 2022 .....      | 130,195           |
| 2023 .....      | —                 |
| Thereafter..... | 268,323           |
|                 | <u>\$ 992,279</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.

As of December 31, 2018, 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, 2018 (dollars in thousands):

| Debentures Issued to                   | Fixed/<br>Variable | Interest<br>Rate | Amount           | Maturity | Callable | Call<br>Price |
|--|--------------------|------------------|------------------|----------|----------|---------------|
| Columbia Bancorp Statutory Trust.....  | Variable           | 5.05%            | \$ 6,186         | 06/30/34 | 03/31/19 | 100.0         |
| Columbia Bancorp Statutory Trust II... | Variable           | 4.68%            | 4,124            | 03/15/35 | 03/15/19 | 100.0         |
| Columbia Bancorp Statutory Trust III.. | Variable           | 4.56%            | 6,186            | 06/15/35 | 03/15/19 | 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:

|  | 2018            |                              | 2017            |                              |
|--|-----------------|------------------------------|-----------------|------------------------------|
|  | Notional Amount | Asset (Liability) Fair Value | Notional Amount | Asset (Liability) Fair Value |
|  | (in thousands)  |                              |                 |                              |
| <b>Interest Rate Locks with Customers</b>                  |                 |                              |                 |                              |
| Positive fair values .....                                 | \$ 101,700      | \$ 1,148                     | \$ 129,469      | \$ 1,059                     |
| Negative fair values .....                                 | 1,646           | (12)                         | 8,957           | (59)                         |
| Net interest rate locks with customers.....                |                 | 1,136                        |                 | 1,000                        |
| <b>Forward Commitments</b>                                 |                 |                              |                 |                              |
| Positive fair values .....                                 | 1,540           | 3                            | 3,856           | 34                           |
| Negative fair values .....                                 | 83,562          | (1,066)                      | 100,808         | (213)                        |
| Net forward commitments.....                               |                 | (1,063)                      |                 | (179)                        |
| <b>Interest Rate Swaps with Customers</b>                  |                 |                              |                 |                              |
| Positive fair values .....                                 | 1,185,144       | 33,258                       | 1,316,548       | 24,505                       |
| Negative fair values .....                                 | 1,386,046       | (30,769)                     | 716,634         | (18,978)                     |
| Net interest rate swaps with customers .....               |                 | 2,489                        |                 | 5,527                        |
| <b>Interest Rate Swaps with Dealer Counterparties</b>      |                 |                              |                 |                              |
| Positive fair values <sup>(1)</sup> .....                  | 1,386,046       | 28,143                       | 716,634         | 18,941                       |
| Negative fair values <sup>(1)</sup> .....                  | 1,185,144       | (16,338)                     | 1,316,548       | (19,764)                     |
| Net interest rate swaps with dealer counterparties .....   |                 | 11,805                       |                 | (823)                        |
| <b>Foreign Exchange Contracts with Customers</b>           |                 |                              |                 |                              |
| Positive fair values .....                                 | 5,881           | 105                          | 4,852           | 276                          |
| Negative fair values .....                                 | 9,690           | (251)                        | 5,914           | (119)                        |
| Net foreign exchange contracts with customers.....         |                 | (146)                        |                 | 157                          |
| <b>Foreign Exchange Contracts with Correspondent Banks</b> |                 |                              |                 |                              |
| Positive fair values .....                                 | 9,220           | 287                          | 7,960           | 184                          |
| Negative fair values .....                                 | 6,831           | (130)                        | 6,048           | (255)                        |
| Net foreign exchange contracts with correspondent banks .. |                 | 157                          |                 | (71)                         |
| Net derivative fair value asset .....                      |                 | \$ 14,378                    |                 | \$ 5,611                     |

(1) 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 \$14.3 million and \$4.6 million at December 31, 2018 and 2017.

The following table presents the fair value gains and losses on derivative financial instruments for the years ended December 31:

|  | 2018           | 2017     | 2016     | Statement of Income Classification |
|--|----------------|----------|----------|------------------------------------|
|  | (in thousands) |          |          |                                    |
| Interest rate locks with customers.....                      | \$ 136         | \$ 364   | \$ (639) | Mortgage banking income            |
| Forward commitments .....                                    | (884)          | (2,290)  | 1,930    | Mortgage banking income            |
| Interest rate swaps with customers <sup>(1)</sup> .....      | (3,038)        | (1,872)  | (25,461) | Other non-interest expense         |
| Interest rate swaps with counterparties <sup>(1)</sup> ..... | 12,628         | 6,576    | 25,461   | Other non-interest expense         |
| Foreign exchange contracts with customers .....              | (303)          | (126)    | 353      | Other service charges and fees     |
| Foreign exchange contracts with correspondent banks ..       | 228            | 135      | (487)    | Other service charges and fees     |
| Net fair value gains on derivative financial instruments     | \$ 8,767       | \$ 2,787 | \$ 1,157 |                                    |

(1) Not included are the \$9.7 million and \$4.6 million of expense related to the variation margin settlements at December 31, 2018 and 2017, respectively.

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, 2018 and 2017:

|                                  | Cost <sup>(1)</sup> | Fair Value | Balance Sheet Classification | Fair Value Gain | Statement of Income Classification |
|----------------------------------|---------------------|------------|------------------------------|-----------------|------------------------------------|
|                                  | (in thousands)      |            |                              |                 |                                    |
| <b>December 31, 2018:</b>        |                     |            |                              |                 |                                    |
| Mortgage loans held for sale ... | \$ 26,407           | \$ 27,099  | Loans held for sale          | \$ 231          | Mortgage banking income            |
| <b>December 31, 2017:</b>        |                     |            |                              |                 |                                    |
| Mortgage loans held for sale ... | 31,069              | 31,530     | Loans held for sale          | 472             | 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 <sup>(1)</sup>                        | Cash Collateral <sup>(2)</sup> |            |
|  | (in thousands)  |   |                                |            |
| <b>2018</b>  |   |   |                                |            |
| Interest rate swap derivative assets.....                          | \$ 61,401   | \$ (12,955)   | \$ (23,270)                    | \$ 25,176  |
| Foreign exchange derivative assets with correspondent banks .....  | 287   | (130)   | —                              | 157        |
| Total.....   | \$ 61,688   | \$ (13,085)   | \$ (23,270)                    | \$ 25,333  |
| Interest rate swap derivative liabilities .....                    | \$ 47,107   | \$ (22,786)   | \$ (22,786)                    | \$ 1,535   |
| Foreign exchange derivative liabilities with correspondent banks.. | 130   | (130)   | —                              | —          |
| Total.....   | \$ 47,237   | \$ (22,916)   | \$ (22,786)                    | \$ 1,535   |
| <b>2017</b>  |   |   |                                |            |
| Interest rate swap derivative assets.....                          | \$ 43,446   | \$ (16,844)   | \$ —                           | \$ 26,602  |
| Foreign exchange derivative assets with correspondent banks .....  | 184   | (184)   | —                              | —          |
| Total.....   | \$ 43,630   | \$ (17,028)   | \$ —                           | \$ 26,602  |
| Interest rate swap derivative liabilities .....                    | \$ 38,742   | \$ (16,844)   | \$ (6,588)                     | \$ 15,310  |
| Foreign exchange derivative liabilities with correspondent banks.. | 255   | (184)   | —                              | 71         |
| Total.....   | \$ 38,997   | \$ (17,028)   | \$ (6,588)                     | \$ 15,381  |

- (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 became 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 minimum Tier 1 capital of 6.00% of risk-weighted assets;
- Meet 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, are 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.

Effective January 1, 2019, the Corporation and its bank subsidiaries were also required to maintain a "capital conservation buffer" of 2.50% above the minimum risk-based capital requirements. The rules provide that the failure to maintain the "capital conservation buffer" results 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 common stock, service its debt obligations or repurchase its common stock.

As of December 31, 2018, 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, 2018 and 2017, 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, 2018 that management believes have changed the institutions' categories.

The following tables present the Total risk-based, Tier I risk-based, Common Equity Tier I risk-based and Tier I leverage requirements under the U.S. Basel III Capital Rules, as of December 31:

|   | 2018         |       |                               |       |                  |       |
|---|--------------|-------|-------------------------------|-------|------------------|-------|
|   | Actual       |       | For Capital Adequacy Purposes |       | Well Capitalized |       |
|   | Amount       | Ratio | Amount                        | Ratio | Amount           | Ratio |
| (dollars in thousands)                                  |              |       |                               |       |                  |       |
| Total Capital (to Risk-Weighted Assets):                |              |       |                               |       |                  |       |
| Corporation.....  | \$ 2,200,257 | 12.8% | \$ 1,380,905                  | 8.0%  | N/A              | N/A   |
| Fulton Bank, N.A. ....                                  | 1,319,090    | 12.1  | 871,413                       | 8.0   | \$ 1,089,267     | 10.0% |
| Fulton Bank of New Jersey .....                         | 418,207      | 13.3  | 250,999                       | 8.0   | 313,748          | 10.0  |
| The Columbia Bank.....                                  | 266,661      | 12.9  | 165,676                       | 8.0   | 207,094          | 10.0  |
| Lafayette Ambassador Bank.....                          | 180,604      | 16.0  | 90,077                        | 8.0   | 112,596          | 10.0  |
| Tier I Capital (to Risk-Weighted Assets):               |              |       |                               |       |                  |       |
| Corporation.....  | \$ 1,764,847 | 10.2% | \$ 1,035,679                  | 6.0%  | N/A              | N/A   |
| Fulton Bank, N.A.....                                   | 1,225,797    | 11.3  | 653,560                       | 6.0   | \$ 871,413       | 8.0%  |
| Fulton Bank of New Jersey .....                         | 378,962      | 12.1  | 188,249                       | 6.0   | 250,999          | 8.0   |
| The Columbia Bank.....                                  | 242,668      | 11.7  | 124,257                       | 6.0   | 165,676          | 8.0   |
| Lafayette Ambassador Bank.....                          | 169,835      | 15.1  | 67,558                        | 6.0   | 90,077           | 8.0   |
| Common Equity Tier I Capital (to Risk-weighted Assets): |              |       |                               |       |                  |       |
| Corporation.....  | \$ 1,764,847 | 10.2% | \$ 776,759                    | 4.5%  | N/A              | N/A   |
| Fulton Bank, N.A.....                                   | 1,181,797    | 10.8  | 490,170                       | 4.5   | \$ 708,023       | 6.5%  |
| Fulton Bank of New Jersey .....                         | 378,962      | 12.1  | 141,187                       | 4.5   | 203,936          | 6.5   |
| The Columbia Bank.....                                  | 242,668      | 11.7  | 93,192                        | 4.5   | 134,611          | 6.5   |
| Lafayette Ambassador Bank.....                          | 169,835      | 15.1  | 50,668                        | 4.5   | 73,187           | 6.5   |
| Tier I Leverage Capital (to Average Assets):            |              |       |                               |       |                  |       |
| Corporation.....  | \$ 1,764,847 | 9.0%  | \$ 783,118                    | 4.0%  | N/A              | N/A   |
| Fulton Bank, N.A.....                                   | 1,225,797    | 10.0  | 487,992                       | 4.0   | \$ 609,989       | 5.0%  |
| Fulton Bank of New Jersey .....                         | 378,962      | 9.4   | 162,098                       | 4.0   | 202,623          | 5.0   |
| The Columbia Bank.....                                  | 242,668      | 10.1  | 96,269                        | 4.0   | 120,336          | 5.0   |
| Lafayette Ambassador Bank.....                          | 169,835      | 10.9  | 62,520                        | 4.0   | 78,150           | 5.0   |

N/A – Not applicable as "well capitalized" applies to banks only.

2017

|  | Actual                 |       | For Capital Adequacy Purposes |       | Well Capitalized |       |
|--|------------------------|-------|-------------------------------|-------|------------------|-------|
|  | Amount                 | Ratio | Amount                        | Ratio | Amount           | Ratio |
|  | (dollars in thousands) |       |                               |       |                  |       |
| <b>Total Capital (to Risk-Weighted Assets):</b>                |                        |       |                               |       |                  |       |
| 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  |
| <b>Tier I Capital (to Risk-Weighted Assets):</b>               |                        |       |                               |       |                  |       |
| 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   |
| <b>Common Equity Tier I Capital (to Risk-weighted Assets):</b> |                        |       |                               |       |                  |       |
| 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   |
| <b>Tier I Leverage Capital (to Average Assets):</b>            |                        |       |                               |       |                  |       |
| 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.

#### 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 to the Corporation was approximately \$324 million as of December 31, 2018, 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

The components of the provision for income taxes are as follows:

|  | <b>2018</b>      | 2017           | 2016      |
|--|------------------|----------------|-----------|
|  |                  | (in thousands) |           |
| <b>Current tax expense:</b>            |                  |                |           |
| Federal .....                          | <b>\$ 35,783</b> | \$ 19,553      | \$ 33,872 |
| State .....                            | <b>5,352</b>     | 2,617          | 1,698     |
|  | <b>41,135</b>    | 22,170         | 35,570    |
| <b>Deferred tax (benefit) expense:</b> |                  |                |           |
| Federal .....                          | <b>(16,841)</b>  | 39,885         | 7,968     |
| State .....                            | <b>283</b>       | 646            | 3,086     |
|  | <b>(16,558)</b>  | 40,531         | 11,054    |
| <b>Total income tax expense .....</b>  | <b>\$ 24,577</b> | \$ 62,701      | \$ 46,624 |

The differences between the effective income tax rate and the federal statutory income tax rate are as follows:

|  | <b>2018</b>  | 2017  | 2016  |
|--|--------------|-------|-------|
| Statutory tax rate .....   | <b>21.0%</b> | 35.0% | 35.0% |
| Tax credit investments.....                                      | <b>(6.1)</b> | (7.8) | (7.0) |
| Tax-exempt income.....   | <b>(4.1)</b> | (6.6) | (6.5) |
| Bank owned life insurance.....                                   | <b>(0.4)</b> | (0.4) | (0.6) |
| Re-measurement of net deferred tax asset due to the Tax Act..... | <b>(0.3)</b> | 6.7   | —     |
| Change in valuation allowance .....                              | <b>(0.1)</b> | 1.2   | 0.3   |
| Executive compensation .....                                     | <b>0.1</b>   | 0.1   | 0.1   |
| State income taxes, net of federal benefit .....                 | <b>2.0</b>   | (0.5) | 1.2   |
| Other, net.....  | <b>(1.6)</b> | (1.0) | (0.1) |
| <b>Effective income tax rate .....</b>                           | <b>10.5%</b> | 26.7% | 22.4% |

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>2018</u>      | <u>2017</u>      |
|--|------------------|------------------|
|  | (in thousands)   |                  |
| Deferred tax assets:                                     |                  |                  |
| Allowance for credit losses .....                        | \$ 37,906        | \$ 40,554        |
| Tax credit carryforward .....                            | 27,615           | —                |
| Unrealized holding losses on securities .....            | 12,489           | 5,830            |
| State loss carryforwards .....                           | 11,605           | 11,855           |
| Other accrued expenses .....                             | 7,232            | 6,977            |
| Deferred compensation .....                              | 7,064            | 7,663            |
| Postretirement and defined benefit plans .....           | 5,079            | 7,274            |
| Other-than-temporary impairment of investments .....     | 1,803            | 2,045            |
| Other .....  | 11,127           | 6,742            |
| Total gross deferred tax assets .....                    | <u>121,920</u>   | <u>88,940</u>    |
| Deferred tax liabilities:                                |                  |                  |
| Direct leasing .....                                     | 31,466           | 21,917           |
| Mortgage servicing rights .....                          | 8,560            | 8,204            |
| Acquisition premiums/discounts .....                     | 5,294            | 6,030            |
| Premises and equipment .....                             | 3,579            | 3,099            |
| Intangible assets .....                                  | 1,292            | 1,155            |
| Other .....  | 12,178           | 10,420           |
| Total gross deferred tax liabilities .....               | <u>62,369</u>    | <u>50,825</u>    |
| Net deferred tax asset, before valuation allowance ..... | 59,551           | 38,115           |
| Valuation allowance .....                                | (11,605)         | (11,855)         |
| Net deferred tax asset .....                             | <u>\$ 47,946</u> | <u>\$ 26,260</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, 2018 and 2017, the Corporation had state net operating loss carryforwards of approximately \$347.3 million and \$369.1 million, respectively, which are available to offset future state taxable income, and expire at various dates through 2038.

The Corporation has \$1.7 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, 2018.

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, 2018.

### Uncertain Tax Positions

The following summarizes the changes in unrecognized tax benefits for the years ended December 31:

|                                       | <u>2018</u>     | <u>2017</u>     | <u>2016</u>     |
|---------------------------------------|-----------------|-----------------|-----------------|
|                                       | (in thousands)  |                 |                 |
| Balance at beginning of year .....    | \$ 2,550        | \$ 2,438        | \$ 2,373        |
| Current period tax positions .....    | 593             | 523             | 456             |
| Lapse of statute of limitations ..... | (417)           | (411)           | (391)           |
| Balance at end of year .....          | <u>\$ 2,726</u> | <u>\$ 2,550</u> | <u>\$ 2,438</u> |

As of December 31, 2018, if recognized, all of the Corporation's unrecognized tax benefits would impact the effective tax rate. Not included in the table above is \$589,000 of federal income tax benefits 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 \$59,000 and \$42,000 in 2018 and 2017, respectively, for interest and penalties in income tax expense related to unrecognized tax positions. As of December 31, 2018 and 2017, total accrued interest and penalties related to unrecognized tax positions were approximately \$675,000 and \$616,000, 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 2015.

### Qualified Affordable Housing Projects and Other Tax Credit Investments

The Corporation's Tax Credit Investments are primarily related to investments promoting qualified affordable housing projects and investments in community development entities. The majority of these tax-advantaged investments support the Corporation's regulatory compliance with the Community Reinvestment Act ("CRA"). The Corporation's investments in these projects generate a return primarily through the realization of federal income tax credits and deductions for operating losses over a specified time period.

The Corporation's Tax Credit Investments are included in other assets on the consolidated balance sheets, with any unfunded equity commitments carried in other liabilities on the consolidated balance sheets. Certain Tax Credit Investments qualify for the proportional amortization method and are amortized over the period the Corporation expects to receive the tax credits, with the expense included within income taxes on the consolidated statements of income. Other Tax Credit Investments are accounted for under the equity method of accounting, with amortization included within non-interest expense on the consolidated statements of income. This amortization includes equity in partnership losses and the systematic write-down of investments over the period in which income tax credits are earned. All of the tax credit investments are evaluated for impairment at the end of each reporting period.

The following table presents the balances of the Corporation's affordable housing tax credit investments, other tax credit investments and related unfunded commitments as of December 31:

|   | <u>2018</u>       | <u>2017</u>       | <u>2016</u>       |
|---|-------------------|-------------------|-------------------|
|   | (in thousands)    |                   |                   |
| <u>Included in other assets:</u>                            |                   |                   |                   |
| Affordable housing tax credit investments, net .....        | \$ 170,401        | \$ 191,771        | \$ 169,382        |
| Other tax credit investments, net .....                     | 72,584            | 79,753            | 89,881            |
| Total tax credit investments, net .....                     | <u>\$ 242,985</u> | <u>\$ 271,524</u> | <u>\$ 259,263</u> |
| <u>Included in other liabilities:</u>                       |                   |                   |                   |
| Unfunded affordable housing tax credit commitments .....    | \$ 23,196         | \$ 68,848         | \$ 40,634         |
| Other tax credit liabilities .....                          | 59,823            | 62,049            | 69,132            |
| Total unfunded tax credit commitments and liabilities ..... | <u>\$ 83,019</u>  | <u>\$ 130,897</u> | <u>\$ 109,766</u> |



The following table presents other information relating to the Corporation's affordable housing tax credit investments and other tax credit investments for the years ended December 31:

|  | <u>2018</u>        | <u>2017</u>        | <u>2016</u>        |
|--|--------------------|--------------------|--------------------|
|  | (in thousands)     |                    |                    |
| <u>Components of Income Taxes:</u>   |                    |                    |                    |
| Affordable housing tax credits and other tax benefits .....                        | \$ (30,721)        | \$ (25,642)        | \$ (23,571)        |
| Other tax credit investment credits and tax benefits .....                         | (6,385)            | (15,791)           | (8,761)            |
| Amortization of affordable housing investments, net of tax benefit .....           | 21,569             | 16,958             | 15,574             |
| Deferred tax expense.....  | 1,341              | 6,201              | 2,177              |
| Total reduction in income tax expense.....   | <u>\$ (14,196)</u> | <u>\$ (18,274)</u> | <u>\$ (14,581)</u> |
| <u>Amortization of Tax Credit Investments:</u>                                     |                    |                    |                    |
| Affordable housing tax credits investment .....                                    | \$ 3,355           | \$ —               | \$ —               |
| Other tax credit investment amortization.....                                      | 8,094              | 11,028             | —                  |
| Total amortization of tax credit investments recorded in non-interest expense..... | <u>\$ 11,449</u>   | <u>\$ 11,028</u>   | <u>\$ —</u>        |

### NOTE 13 – EMPLOYEE BENEFIT PLANS

The following summarizes the Corporation's expense under its retirement plans for the years ended December 31:

|                              | <u>2018</u>      | <u>2017</u>      | <u>2016</u>      |
|------------------------------|------------------|------------------|------------------|
|                              | (in thousands)   |                  |                  |
| 401(k) Retirement Plan ..... | \$ 8,482         | \$ 8,121         | \$ 7,418         |
| Pension Plan .....           | 3,435            | 4,168            | 4,310            |
|                              | <u>\$ 11,917</u> | <u>\$ 12,289</u> | <u>\$ 11,728</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.

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>2018</u>     | <u>2017</u>     | <u>2016</u>     |
|------------------------------------|-----------------|-----------------|-----------------|
|                                    | (in thousands)  |                 |                 |
| Service cost <sup>(1)</sup> .....  | \$ —            | \$ —            | \$ 688          |
| Interest cost .....                | 3,053           | 3,320           | 3,520           |
| Expected return on assets .....    | (2,047)         | (1,804)         | (2,318)         |
| Net amortization and deferral..... | 2,429           | 2,652           | 2,420           |
| Net periodic pension cost .....    | <u>\$ 3,435</u> | <u>\$ 4,168</u> | <u>\$ 4,310</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>2018</u>      | <u>2017</u>      |
|--|------------------|------------------|
|  | (in thousands)   |                  |
| Projected benefit obligation at beginning of year..... | \$ 89,482        | \$ 85,363        |
| Interest cost.....                                     | 3,053            | 3,320            |
| Benefit payments.....                                  | (5,796)          | (3,751)          |
| Change in assumptions.....                             | (8,051)          | 5,008            |
| Experience gain.....                                   | 738              | (458)            |
| Projected benefit obligation at end of year.....       | <u>\$ 79,426</u> | <u>\$ 89,482</u> |
| Fair value of plan assets at beginning of year.....    | \$ 54,061        | \$ 48,684        |
| Employer contributions <sup>(1)</sup> .....            | 13,042           | 3,816            |
| Actual return on plan assets.....                      | (3,482)          | 5,312            |
| Benefit payments.....                                  | (5,796)          | (3,751)          |
| Fair value of plan assets at end of year.....          | <u>\$ 57,825</u> | <u>\$ 54,061</u> |

(1) The Corporation funds at least the minimum amount required by federal law and regulations. The Corporation contributed \$13.0 million and \$3.8 million to the Pension Plan during 2018 and 2017, 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>2018</u>        | <u>2017</u>        |
|-----------------------------------|--------------------|--------------------|
|                                   | (in thousands)     |                    |
| Projected benefit obligation..... | \$ (79,426)        | \$ (89,482)        |
| Fair value of plan assets.....    | 57,825             | 54,061             |
| Funded status.....                | <u>\$ (21,601)</u> | <u>\$ (35,421)</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, 2016.....                         | \$ 30,169             | \$ 19,610        |
| Recognized as a component of 2017 periodic pension cost..... | (2,652)               | (1,724)          |
| Unrecognized gains arising in 2017.....                      | 1,042                 | 678              |
| Balance as of December 31, 2017.....                         | <u>28,559</u>         | <u>18,564</u>    |
| Recognized as a component of 2018 periodic pension cost..... | (2,429)               | (1,892)          |
| Unrecognized losses arising in 2018.....                     | (1,783)               | (1,389)          |
| Re-measurement adjustments for tax rate changes.....         | —                     | 3,678            |
| Balance as of December 31, 2018.....                         | <u>\$ 24,347</u>      | <u>\$ 18,961</u> |

The total amount of unrecognized net loss that will be amortized as a component of net periodic pension cost in 2019 is expected to be \$2.3 million.

The following rates were used to calculate net periodic pension cost and the present value of benefit obligations as of December 31:

|   | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-------------|-------------|-------------|
| Discount rate-projected benefit obligation.....       | 4.25%       | 3.50%       | 4.00%       |
| Expected long-term rate of return on plan assets..... | 5.00%       | 5.00%       | 5.00%       |

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, 2018 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:

|   | 2018                 |                   | 2017                 |                   |
|---|----------------------|-------------------|----------------------|-------------------|
|   | Estimated Fair Value | % of Total Assets | Estimated Fair Value | % of Total Assets |
| (dollars in thousands)                  |                      |                   |                      |                   |
| Equity mutual funds .....               | \$ 18,532            |                   | \$ 19,219            |                   |
| Equity common trust funds .....         | 9,062                |                   | 9,612                |                   |
| Equity securities .....                 | 27,594               | 47.7%             | 28,831               | 53.3%             |
| Cash and money market funds .....       | 10,754               |                   | 5,675                |                   |
| Fixed income mutual funds .....         | 11,523               |                   | 11,136               |                   |
| Corporate debt securities .....         | 2,985                |                   | 2,999                |                   |
| U.S. Government agency securities.....  | —                    |                   | 249                  |                   |
| Fixed income securities and cash .....  | 25,262               | 43.7%             | 20,059               | 37.1%             |
| Other alternative investment funds..... | 4,969                | 8.6%              | 5,171                | 9.6%              |
|   | <b>\$ 57,825</b>     | <b>100.0%</b>     | <b>\$ 54,061</b>     | <b>100.0%</b>     |

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              |                  |
|-------------------|------------------|
| 2019 .....        | \$ 3,899         |
| 2020 .....        | 4,203            |
| 2021 .....        | 4,390            |
| 2022 .....        | 4,500            |
| 2023 .....        | 4,628            |
| 2024 – 2028 ..... | 24,718           |
|                   | <b>\$ 46,338</b> |



The following rates were used to calculate net periodic postretirement benefit cost and the present value of benefit obligations as of December 31:

|   | <b>2018</b>  | 2017  | 2016  |
|---|--------------|-------|-------|
| Discount rate-projected benefit obligation.....       | <b>4.25%</b> | 3.50% | 4.25% |
| Expected long-term rate of return on plan assets..... | <b>3.00%</b> | 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>      |                 |
|------------------|-----------------|
| 2019.....        | \$ 189          |
| 2020.....        | 176             |
| 2021.....        | 164             |
| 2022.....        | 151             |
| 2023.....        | 140             |
| 2024 – 2028..... | 534             |
|                  | <u>\$ 1,354</u> |

## NOTE 14 – SHAREHOLDERS' EQUITY

### Accumulated Other Comprehensive (Loss) Income

The following table presents the components of other comprehensive income (loss) for the years ended December 31:

|   | Before-Tax<br>Amount | Tax Effect        | Net of Tax<br>Amount |
|---|----------------------|-------------------|----------------------|
|   | (in thousands)       |                   |                      |
| <b>2018:</b>  |                      |                   |                      |
| Unrealized loss on available for sale securities .....  | \$ (31,235)          | \$ 6,909          | \$ (24,326)          |
| Reclassification adjustment for available for sale securities gains included in net income <sup>(1)</sup> .....             | (37)                 | 7                 | (30)                 |
| Amortization of net unrealized losses on available for sale securities transferred to held to maturity <sup>(2)</sup> ..... | 2,694                | (596)             | 2,098                |
| Non-credit related unrealized loss on other-than-temporarily impaired debt securities .....                                 | 285                  | (63)              | 222                  |
| Unrecognized pension and postretirement income .....  | 1,798                | (398)             | 1,400                |
| Amortization of net unrecognized pension and postretirement income <sup>(3)</sup> .....                                     | 2,116                | (468)             | 1,648                |
| Total Other Comprehensive Loss .....  | <u>\$ (24,379)</u>   | <u>\$ 5,391</u>   | <u>\$ (18,988)</u>   |
| <b>2017:</b>  |                      |                   |                      |
| Unrealized gain on available for sale securities .....  | \$ 16,051            | \$ (5,619)        | \$ 10,432            |
| Reclassification adjustment for available for sale securities gains included in net income <sup>(1)</sup> .....             | (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 <sup>(3)</sup> .....                                     | 2,092                | (731)             | 1,361                |
| Total Other Comprehensive Income .....  | <u>\$ 8,420</u>      | <u>\$ (2,945)</u> | <u>\$ 5,475</u>      |
| <b>2016:</b>  |                      |                   |                      |
| Unrealized loss on available for sale securities .....  | \$ (22,907)          | \$ 8,016          | \$ (14,891)          |
| Reclassification adjustment for available for sale securities gains included in net income <sup>(1)</sup> .....             | (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 <sup>(4)</sup> .....                                    | 25                   | (9)               | 16                   |
| Unrecognized pension and postretirement cost .....  | (1,432)              | 501               | (931)                |
| Amortization of net unrecognized pension and postretirement income <sup>(3)</sup> .....                                     | 1,869                | (653)             | 1,216                |
| Total Other Comprehensive Loss .....  | <u>\$ (25,280)</u>   | <u>\$ 8,848</u>   | <u>\$ (16,432)</u>   |

- (1) Amounts reclassified out of accumulated other comprehensive (loss) income. 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 (loss) income. Before-tax amounts as a reduction to "Interest Income" on the consolidated statements of income. See "Note 3, - Investment Securities," for additional details.
- (3) Amounts reclassified out of accumulated other comprehensive (loss) income. Before-tax amounts included in "Salaries and employee benefits" on the consolidated statements of income. See "Note 13 - Employee Benefit Plans," for additional details.
- (4) Amounts reclassified out of accumulated other comprehensive (loss) income. 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, 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 (loss) income..                                   | (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 (loss) income..                                   | (5,894)   | —   | —   | 1,361  | (4,533)            |
| Balance as of December 31, 2017.....  | <b>(18,509)</b>   | <b>458</b>  | <b>—</b>  | <b>(14,923)</b>  | <b>(32,974)</b>    |
| Other comprehensive loss before reclassifications.....  | <b>(24,326)</b>   | <b>222</b>  | <b>—</b>  | <b>1,400</b>   | <b>(22,704)</b>    |
| Amounts reclassified from accumulated other comprehensive (loss) income..                                   | <b>(30)</b>   | <b>—</b>  | <b>—</b>  | <b>1,648</b>   | <b>1,618</b>       |
| Amortization of net unrealized losses on available for sale securities transferred to held to maturity..... | <b>2,098</b>  | <b>—</b>  | <b>—</b>  | <b>—</b>   | <b>2,098</b>       |
| Reclassification of stranded tax effects.....   | <b>(3,887)</b>  | <b>—</b>  | <b>—</b>  | <b>(3,214)</b>   | <b>(7,101)</b>     |
| Balance as of December 31, 2018.....  | <b>\$ (44,654)</b>  | <b>\$ 680</b>   | <b>\$ —</b>   | <b>\$ (15,089)</b>   | <b>\$ (59,063)</b> |

#### 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 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, 2018. During 2018, the Corporation repurchased approximately 1.9 million shares under this program for a total cost of approximately \$31.5 million, or \$16.71 per share, completing this program.

In November 2018, the Corporation's board of directors approved a share repurchase program pursuant to which the Corporation is authorized to repurchase up to \$75.0 million of its outstanding shares of common stock, or approximately 2.7% of its outstanding shares, through December 31, 2019. During 2018, the Corporation repurchased approximately 4.1 million shares under this program for a total cost of \$63.7 million or \$15.49 per share. Up to an additional \$11.3 million of the Corporation's common stock may be repurchased under this program through December 31, 2019.

Total commissions and fees paid on stock repurchases in 2018 were \$139,000. Under both repurchase programs, repurchased shares were 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.

#### **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:

|   | 2018            | 2017            | 2016            |
|---|-----------------|-----------------|-----------------|
|   | (in thousands)  |                 |                 |
| Compensation expense.....                 | \$ 7,965        | \$ 5,209        | \$ 6,556        |
| Tax benefit.....                          | (2,625)         | (3,994)         | (2,679)         |
| Stock-based compensation, net of tax..... | <b>\$ 5,340</b> | <b>\$ 1,215</b> | <b>\$ 3,877</b> |

The tax benefits as a percentage of compensation expense, as shown in the preceding table, were 33.0%, 76.7% and 40.9% in 2018, 2017 and 2016, respectively. These percentages differ from the Corporation's statutory tax rates of 21% for 2018 and 35% for 2017 and 2016 ("Tax Rates"). 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 Tax Rates resulted from incentive stock options, for which a tax benefit is not recognized during the vesting period. Tax benefits in excess of the Tax Rates 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:

|  | <u>2018</u>     | <u>2017</u>     | <u>2016</u>     |
|--|-----------------|-----------------|-----------------|
|  | (in thousands)  |                 |                 |
| Compensation expense.....                      | \$ 7,124        | \$ 4,922        | \$ 6,165        |
| Tax benefit.....                               | (1,585)         | (1,559)         | (2,158)         |
| Restricted stock compensation, net of tax..... | <u>\$ 5,539</u> | <u>\$ 3,363</u> | <u>\$ 4,007</u> |

The following table provides information about stock option activity for the year ended December 31, 2018:

|  | Stock<br>Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value<br>(in millions) |
|--|------------------|--|---|--|
| Outstanding and exercisable as of December 31, 2017..... | 878,202          | \$ 10.66                                 |   |  |
| Exercised.....   | (214,845)        | 10.29                                    |   |  |
| Forfeited.....   | (1,117)          | 9.84                                     |   |  |
| Expired.....   | (3,472)          | 9.78                                     |   |  |
| Outstanding and exercisable as of December 31, 2018..... | <u>658,768</u>   | <u>\$ 10.75</u>                          | <u>4.1 years</u>  | <u>\$ 3.0</u>                                    |
| Exercisable as of December 31, 2018.....                 | <u>658,768</u>   | <u>\$ 10.75</u>                          | <u>4.1 years</u>  | <u>\$ 3.0</u>                                    |

The following table provides information about nonvested restricted stock, RSUs and PSUs granted under the Employee Equity Plan and Directors' Plan for the year ended December 31, 2018:

|  | Restricted Stock/RSUs/PSUs <sup>(1)</sup> |   |
|--|---|---|
|  | Shares                                    | Weighted<br>Average<br>Grant Date<br>Fair Value |
| Nonvested as of December 31, 2017..... | 1,306,937                                 | \$ 13.91  |
| Granted.....                           | 536,172                                   | 17.15   |
| Vested.....                            | (438,596)                                 | 12.76   |
| Forfeited.....                         | (36,020)                                  | 16.18   |
| Nonvested as of December 31, 2018..... | <u>1,368,493</u>                          | <u>\$ 15.49</u>                                 |

(1) There were no nonvested stock options at December 31, 2018 or 2017.

As of December 31, 2018, 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, 2018, the Employee Equity Plan had 10.5 million shares reserved for future grants through 2023, and the Directors' Plan had 312,000 shares reserved for future grants through 2021.

The following table presents information about stock options exercised:

|  | <u>2018</u>            | <u>2017</u> | <u>2016</u> |
|--|------------------------|-------------|-------------|
|  | (dollars in thousands) |             |             |
| Number of options exercised.....                   | <u>214,845</u>         | 411,292     | 920,924     |
| Total intrinsic value of options exercised.....    | \$ 1,616               | \$ 2,955    | \$ 4,619    |
| Cash received from options exercised.....          | \$ 2,210               | \$ 4,644    | \$ 10,240   |
| Tax deduction realized from options exercised..... | \$ 1,386               | \$ 2,825    | \$ 4,328    |



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:

|   | <b>2018</b>    | 2017    | 2016    |
|---|----------------|---------|---------|
| Risk-free interest rate .....           | <b>2.63%</b>   | 1.43%   | 0.92%   |
| Volatility of Corporation's stock ..... | <b>23.50%</b>  | 22.45%  | 20.75%  |
| Expected life of PSUs .....             | <b>3 Years</b> | 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 2018, 2017 and 2016 of \$12.92, \$17.25 and \$11.23, 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:

|   | <b>2018</b>     | 2017     | 2016     |
|---|-----------------|----------|----------|
| ESPP shares purchased.....                                  | <b>110,200</b>  | 98,000   | 109,665  |
| Average purchase price per share (85% of market value)..... | <b>\$ 14.74</b> | \$ 15.28 | \$ 12.37 |
| Compensation expense recognized (in thousands) .....        | <b>\$ 287</b>   | \$ 261   | \$ 240   |

#### **NOTE 16 – LEASES**

Certain branch offices are leased under agreements that expire at varying dates through 2038. Most leases contain renewal provisions at the Corporation's option. Total rental expense was approximately \$19.0 million in 2018, \$18.7 million in 2017 and \$18.4 million in 2016.

Future minimum payments as of December 31, 2018 under non-cancelable operating leases with initial terms exceeding one year are as follows (in thousands):

| <u>Year</u>      |                   |
|------------------|-------------------|
| 2019 .....       | \$ 18,013         |
| 2020 .....       | 17,254            |
| 2021 .....       | 15,681            |
| 2022 .....       | 13,735            |
| 2023 .....       | 11,367            |
| Thereafter ..... | 43,307            |
|                  | <u>\$ 119,357</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:

|   | <u>2018</u>                | <u>2017</u>         |
|---|----------------------------|---------------------|
|   | (in thousands)             |                     |
| Commercial and other.....                 | <b>\$ 3,642,545</b>        | \$ 3,689,700        |
| Home equity.....                          | <b>1,475,066</b>           | 1,422,284           |
| Commercial mortgage and construction..... | <b>1,188,972</b>           | 1,093,045           |
| Total commitments to extend credit.....   | <b><u>\$ 6,306,583</u></b> | <u>\$ 6,205,029</u> |
| Standby letters of credit.....            | <b>\$ 309,352</b>          | \$ 326,973          |
| Commercial letters of credit.....         | <b>48,682</b>              | 41,801              |
| Total letters of credit.....              | <b><u>\$ 358,034</u></b>   | <u>\$ 368,774</u>   |

### Residential Lending

The Corporation originates and sells residential mortgages to secondary market investors. The Corporation provides customary representations and warranties to secondary market investors that specify, among other things, that the loans have been underwritten to the standards of the secondary market investor. The Corporation may be required to repurchase specific loans, or reimburse the investor for a credit loss incurred on a sold loan if it is determined that the representations and warranties have not been met. Under some agreements with secondary market investors, the Corporation may have additional credit exposure beyond customary representations and warranties, based on the specific terms of those agreements.

The Corporation maintains a reserve for estimated credit losses related to loans sold to investors. As of December 31, 2018 and 2017, the total reserve for losses on residential mortgage loans sold was \$2.1 million, including reserves for both representation and warranty and credit loss exposures.

### Legal Proceedings

The Corporation is involved in various pending and threatened claims and other legal proceedings in the ordinary course of its business activities. The Corporation evaluates the possible impact of these matters, taking into consideration the most recent information available. A loss reserve is established for those matters for which the Corporation believes a loss is both probable and reasonably estimable. Once established, the reserve is adjusted as appropriate to reflect any subsequent developments. Actual losses with respect to any such matter may be more or less than the amount estimated by the Corporation. For matters where a loss is not probable, or the amount of the loss cannot be reasonably estimated by the Corporation, no loss reserve is established.

In addition, from time to time, the Corporation is involved in 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 companies. These inquiries or investigations could lead to administrative, civil or criminal proceedings involving the Corporation, and could result in fines, penalties, restitution, other types of sanctions, or the need for the Corporation to undertake remedial actions, or to alter its business, financial or accounting practices. The Corporation's practice is to cooperate fully with regulatory and governmental inquiries and 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 legal proceedings, or regulatory or governmental inquiries or investigations, will not have a material adverse effect on the financial condition of the Corporation. However, legal proceedings, inquiries and investigations 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, and could have a material adverse effect on the Corporation's business. In addition, regardless of the ultimate outcome of any such legal proceeding, inquiry or investigation, any such matter could cause the Corporation to incur additional expenses, which could be significant, and possibly material, to the Corporation's results of operations for any particular period.

#### BSA/AML Enforcement Orders

As of December 31, 2018, the Corporation and two of its bank subsidiaries, Lafayette Ambassador Bank and The Columbia Bank, were subject to regulatory enforcement orders issued during 2014 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 and the affected bank subsidiaries are subject to certain restrictions on expansion activities. 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 in a Current Report on Form 8-K filed with the SEC on January 15, 2019, the Maryland Commissioner of Financial Regulation and the Federal Deposit Insurance Corporation terminated the Consent Orders those agencies issued on December 23 and 24, 2014, respectively, to the Corporation's bank subsidiary, The Columbia Bank, relating to deficiencies in the BSA/AML Compliance Program at that bank subsidiary.

#### 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. 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.

#### SEC Investigation

The Corporation is responding to an investigation by the staff of the Division of Enforcement of the SEC regarding certain accounting determinations that could have impacted the Corporation's reported earnings per share. The Corporation believes that

its financial statements filed with the SEC in Forms 10-K and 10-Q present fairly, in all material respects, its financial condition, results of operations and cash flows as of or for the periods ending on their respective dates. The Corporation is cooperating fully with the SEC and at this time cannot predict when or how the investigation will be resolved.

## 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:

|   | 2018             |                     |                   |                     |
|---|------------------|---------------------|-------------------|---------------------|
|   | Level 1          | Level 2             | Level 3           | Total               |
|   | (in thousands)   |                     |                   |                     |
| Mortgage loans held for sale .....                  | \$ —             | \$ 27,099           | \$ —              | \$ 27,099           |
| Available for sale investment securities:           |                  |                     |                   |                     |
| U.S. Government sponsored agency securities .....   | —                | 31,632              | —                 | 31,632              |
| State and municipal securities .....                | —                | 279,095             | —                 | 279,095             |
| Corporate debt securities .....                     | —                | 106,258             | 3,275             | 109,533             |
| Collateralized mortgage obligations.....            | —                | 832,080             | —                 | 832,080             |
| Residential mortgage-backed securities .....        | —                | 463,344             | —                 | 463,344             |
| Commercial mortgage-backed securities .....         | —                | 261,616             | —                 | 261,616             |
| Auction rate securities .....                       | —                | —                   | 102,994           | 102,994             |
| Total available for sale investment securities..... | —                | 1,974,025           | 106,269           | 2,080,294           |
| Investments held in Rabbi Trust .....               | 18,415           | —                   | —                 | 18,415              |
| Derivative assets .....                             | 392              | 62,552              | —                 | 62,944              |
| Total assets .....                                  | <u>\$ 18,807</u> | <u>\$ 2,063,676</u> | <u>\$ 106,269</u> | <u>\$ 2,188,752</u> |
| Investments held in Rabbi Trust .....               | <u>\$ 18,415</u> | <u>\$ —</u>         | <u>\$ —</u>       | <u>\$ 18,415</u>    |
| Derivative liabilities .....                        | 381              | 48,185              | —                 | 48,566              |
| Total liabilities .....                             | <u>\$ 18,796</u> | <u>\$ 48,185</u>    | <u>\$ —</u>       | <u>\$ 66,981</u>    |
|   |                  |                     |                   |                     |
|   | 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           |
| Investments held in Rabbi Trust .....               | 18,982           | —                   | —                 | 18,982              |
| Derivative assets .....                             | 469              | 44,539              | —                 | 45,008              |
| Total assets .....                                  | <u>\$ 20,369</u> | <u>\$ 2,520,682</u> | <u>\$ 102,425</u> | <u>\$ 2,643,476</u> |
| Investments held in Rabbi Trust .....               | <u>\$ 18,982</u> | <u>\$ —</u>         | <u>\$ —</u>       | <u>\$ 18,982</u>    |
| Derivative liabilities .....                        | 375              | 39,014              | —                 | 39,389              |
| Other liabilities .....                             | <u>\$ 19,357</u> | <u>\$ 39,014</u>    | <u>\$ —</u>       | <u>\$ 58,371</u>    |

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, 2018 and 2017 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 – 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 95% of the securities valued by the pricing service. Generally, differences by security in excess of 5% are researched to reconcile the difference.

- Equity securities – As of December 31, 2018, the Corporation did not hold any equity securities. Equity securities held as of December 31, 2017 consisted of common stocks of financial institutions and other equity investments. These Level 1 investments were 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 (\$86.1 million at December 31, 2018 and \$61.9 million at December 31, 2017), single-issuer trust preferred securities issued by financial institutions (\$18.6 million at December 31, 2018 and \$30.7 million at December 31, 2017), pooled trust preferred securities issued by financial institutions (\$875,000 at December 31, 2018 and \$707,000 at December 31, 2017) and other corporate debt issued by non-financial institutions (\$3.9 million at December 31, 2018 and \$4.0 million at December 31, 2017).

Level 2 investments include subordinated debt and senior debt, other corporate debt issued by non-financial institutions and \$16.3 million and \$27.7 million of single-issuer trust preferred securities held at December 31, 2018 and 2017, 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 (\$875,000 at December 31, 2018 and \$707,000 at December 31, 2017) and certain single-issuer trust preferred securities (\$2.4 million at December 31, 2018 and \$3.1 million at December 31, 2017). 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.

- Derivative assets - fair value of foreign currency exchange contracts classified as Level 1 assets (\$392,000 at December 31, 2018 and \$460,000 at December 31, 2017). 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 (\$1.2 million at December 31, 2018 and \$1.1 million at December 31, 2017) and the fair value of interest rate swaps (\$61.4 million at December 31, 2018 and \$43.4 million at December 31, 2017). 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.

- Investments held in Rabbi Trust - This category consists of mutual funds that are held in trust for employee deferred compensation plans that the Corporation has elected to measure at fair value. Shares of mutual funds are valued based on net asset value, which represent quoted market prices for the underlying shares held in the mutual funds, and as such, are classified as Level 1 and are included in "other assets" on the consolidated balance sheets (\$18.4 million at December 31, 2018 and \$19.0 million at December 31, 2017).
- Derivative liabilities - Level 1 liabilities, representing the fair value of foreign currency exchange contracts (\$381,000 at December 31, 2018 and \$374,000 at December 31, 2017). The fair values of these liabilities are determined in the same manner as the related assets.

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 (\$1.1 million at December 31, 2018 and \$272,000 at December 31, 2017) and the fair value of interest rate swaps (\$47.1 million at December 31, 2018 and \$38.7 million at December 31, 2017). 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.

- Investments held in Rabbi Trust - fair value of amounts due to employees under deferred compensation plans classified as Level 1 liabilities (\$18.4 million at December 31, 2018 and \$19.0 million at December 31, 2017).

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, 2016 .....                     | \$ 422                            | \$ 2,450                                 | \$ 97,256               |
| Unrealized adjustments to fair value <sup>(1)</sup> ..... | 285                               | 588                                      | 1,217                   |
| Discount accretion <sup>(2)</sup> .....                   | —                                 | 12                                       | 195                     |
| Balance as of December 31, 2017 .....                     | <b>707</b>                        | <b>3,050</b>                             | <b>98,668</b>           |
| Realized adjustments to fair value .....                  | —                                 | 71                                       | —                       |
| Unrealized adjustments to fair value <sup>(1)</sup> ..... | <b>168</b>                        | <b>221</b>                               | <b>4,326</b>            |
| Settlements - calls.....                                  | —                                 | <b>(950)</b>                             | —                       |
| Discount accretion <sup>(2)</sup> .....                   | —                                 | <b>8</b>                                 | —                       |
| Balance as of December 31, 2018 .....                     | <b>\$ 875</b>                     | <b>\$ 2,400</b>                          | <b>\$ 102,994</b>       |

- (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:

|                    | 2018              | 2017              |
|--------------------|-------------------|-------------------|
|                    | (in thousands)    |                   |
| Net loans.....     | \$ 149,846        | \$ 149,608        |
| OREO .....         | 10,518            | 9,823             |
| MSRs.....          | 38,573            | 37,663            |
| Total assets ..... | <u>\$ 198,937</u> | <u>\$ 197,094</u> |

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 (\$10.5 million at December 31, 2018 and \$9.8 million at December 31, 2017) 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 (\$38.6 million at December 31, 2018 and \$37.7 million at December 31, 2017), 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, 2018 valuation were 8.9% and 9.0%, 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, 2018 and 2017. A general description of the methods and assumptions used to estimate such fair values is also provided.

|  | <b>2018</b>       |               |           |            |                         |
|--|-------------------|---------------|-----------|------------|-------------------------|
|  | Amortized<br>Cost | Level 1       | Level 2   | Level 3    | Estimated Fair<br>Value |
|  | (in thousands)    |               |           |            |                         |
| <b>FINANCIAL ASSETS</b>                          |                   |               |           |            |                         |
| Cash and due from banks .....                    | \$ 103,436        | \$ 103,436    | \$ —      | \$ —       | \$ 103,436              |
| Interest-bearing deposits with other banks ..... | 342,251           | 342,251       | —         | —          | 342,251                 |
| FRB and FHLB stock .....                         | 79,283            | —             | 79,283    | —          | 79,283                  |
| Loans held for sale .....                        | 27,099            | —             | 27,099    | —          | 27,099                  |
| Held to maturity investment securities .....     | 606,679           | 611,419       | —         | —          | 611,419                 |
| Available for sale investment securities .....   | 2,115,265         | —             | 1,974,025 | 106,269    | 2,080,294               |
| Net Loans .....                                  | 16,005,263        | —             | —         | 15,446,895 | 15,446,895              |
| Accrued interest receivable .....                | 58,879            | 58,879        | —         | —          | 58,879                  |
| Other financial assets .....                     | 235,782           | 124,138       | 62,552    | 49,092     | 235,782                 |
| <b>FINANCIAL LIABILITIES</b>                     |                   |               |           |            |                         |
| Demand and savings deposits .....                | \$ 13,478,016     | \$ 13,478,016 | \$ —      | \$ —       | \$ 13,478,016           |
| Brokered deposits .....                          | 176,239           | 176,239       | —         | —          | 176,239                 |
| Time deposits .....                              | 2,721,904         | —             | 2,712,296 | —          | 2,712,296               |
| Short-term borrowings .....                      | 754,777           | 754,777       | —         | —          | 754,777                 |
| Accrued interest payable .....                   | 10,529            | 10,529        | —         | —          | 10,529                  |
| Other financial liabilities .....                | 218,061           | 161,003       | 48,185    | 8,873      | 218,061                 |
| FHLB advances and long-term debt .....           | 992,279           | —             | 970,985   | —          | 970,985                 |
| <b>2017</b>                                      |                   |               |           |            |                         |
|  | Amortized<br>Cost | Level 1       | Level 2   | Level 3    | Estimated Fair<br>Value |
|  | (in thousands)    |               |           |            |                         |
| <b>FINANCIAL ASSETS</b>                          |                   |               |           |            |                         |
| Cash and due from banks .....                    | \$ 108,291        | \$ 108,291    | \$ —      | \$ —       | \$ 108,291              |
| Interest-bearing deposits with other banks ..... | 293,805           | 293,805       | —         | —          | 293,805                 |
| FRB and FHLB stock .....                         | 60,761            | —             | 60,761    | —          | 60,761                  |
| Loans held for sale .....                        | 31,530            | —             | 31,530    | —          | 31,530                  |
| Held to maturity investment securities .....     | —                 | —             | —         | —          | —                       |
| Available for sale investment securities .....   | 2,547,956         | 918           | 2,444,613 | 102,425    | 2,547,956               |
| Net Loans .....                                  | 15,598,337        | —             | —         | 15,380,974 | 15,380,974              |
| Accrued interest receivable .....                | 52,910            | 52,910        | —         | —          | 52,910                  |
| Other financial assets .....                     | 215,464           | 123,439       | 44,539    | 47,486     | 215,464                 |
| <b>FINANCIAL LIABILITIES</b>                     |                   |               |           |            |                         |
| Demand and savings deposits .....                | \$ 13,042,147     | \$ 13,042,147 | \$ —      | \$ —       | \$ 13,042,147           |
| Brokered deposits .....                          | 90,473            | 90,473        | —         | —          | 90,473                  |
| Time deposits .....                              | 2,664,912         | —             | 2,673,359 | —          | 2,673,359               |
| Short-term borrowings .....                      | 617,524           | 617,524       | —         | —          | 617,524                 |
| Accrued interest payable .....                   | 9,317             | 9,317         | —         | —          | 9,317                   |
| Other financial liabilities .....                | 227,569           | 182,381       | 39,014    | 6,174      | 227,569                 |
| FHLB advances and long-term debt .....           | 1,038,346         | —             | 1,025,640 | —          | 1,025,640               |

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.

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

The following instruments are predominantly short-term:

| <b>Assets</b>                              | <b>Liabilities</b>          |
|--|-----------------------------|
| Cash and due from banks                    | Demand and savings deposits |
| Interest-bearing deposits with other banks | Short-term borrowings       |
| Accrued interest receivable                | Accrued interest payable    |

Federal Reserve Bank and Federal Home Loan Bank ("FHLB") stock represent restricted investments and are carried at cost on the consolidated balance sheets.

As of December 31, 2018, fair values for loans and time deposits were estimated by discounting future cash flows using the current rates, as adjusted for liquidity considerations, at which similar loans would be made to borrowers and similar deposits would be issued to customers for the same remaining maturities. Fair values of loans also include estimated credit losses that would be assumed in a market transaction. Beginning in 2018, fair values estimated in this manner are considered to represent estimated exit prices, required by ASU 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities". As of December 31, 2017, loan fair values do not fully incorporate an exit price approach to fair value.

The fair values of FHLB advances and long-term debt were estimated by discounting the remaining contractual cash flows using a rate at which the Corporation could issue debt with similar remaining maturities as of the balance sheet date. These borrowings are categorized in Level 2 liabilities under FASB ASC Topic 820.

## **NOTE 19 – CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY**

### **CONDENSED BALANCE SHEETS**

|   | December 31,        |                     |
|---|---------------------|---------------------|
|   | <b>2018</b>         | 2017                |
|   | (in thousands)      |                     |
| <b><u>ASSETS</u></b>                                    |                     |                     |
| Cash .....  | \$ 30,941           | \$ 22,857           |
| Other assets .....                                      | 7,072               | 5,959               |
| Receivable from subsidiaries .....                      | 51,646              | 53,880              |
| Investments in:   |                     |                     |
| Bank subsidiaries .....                                 | 2,451,651           | 2,399,053           |
| Non-bank subsidiaries .....                             | 425,670             | 426,846             |
| <i>Total Assets</i> .....                               | <b>\$ 2,966,980</b> | <b>\$ 2,908,595</b> |
| <b><u>LIABILITIES AND EQUITY</u></b>                    |                     |                     |
| Long-term debt .....                                    | \$ 386,913          | \$ 386,101          |
| Payable to non-bank subsidiaries .....                  | 247,801             | 206,766             |
| Other liabilities .....                                 | 84,693              | 85,871              |
| <i>Total Liabilities</i> .....                          | 719,407             | 678,738             |
| Shareholders' equity .....                              | 2,247,573           | 2,229,857           |
| <i>Total Liabilities and Shareholders' Equity</i> ..... | <b>\$ 2,966,980</b> | <b>\$ 2,908,595</b> |

**CONDENSED STATEMENTS OF INCOME**

|  | <b>2018</b>       | 2017       | 2016       |
|--|-------------------|------------|------------|
|  | (in thousands)    |            |            |
| <b>Income:</b>   |                   |            |            |
| Dividends from subsidiaries.....   | <b>\$ 150,000</b> | \$ 66,500  | \$ 115,000 |
| Other <sup>(1)</sup> .....   | <b>188,165</b>    | 171,490    | 148,577    |
|  | <b>338,165</b>    | 237,990    | 263,577    |
| <b>Expenses</b> .....  |                   |            |            |
| Income before income taxes and equity in undistributed net income of subsidiaries..... | <b>127,832</b>    | 38,009     | 85,742     |
| Income tax benefit.....  | <b>(7,100)</b>    | (5,448)    | (10,543)   |
|  | <b>134,932</b>    | 43,457     | 96,285     |
| <b>Equity in undistributed net income (loss) of:</b>                                   |                   |            |            |
| Bank subsidiaries .....  | <b>74,631</b>     | 111,226    | 58,477     |
| Non-bank subsidiaries.....   | <b>(1,170)</b>    | 17,070     | 6,863      |
| <i>Net Income</i> .....  | <b>\$ 208,393</b> | \$ 171,753 | \$ 161,625 |

(1) Consists primarily of management fees received from subsidiary banks.

**CONDENSED STATEMENTS OF CASH FLOWS**

|  | <b>2018</b>       | 2017       | 2016       |
|--|-------------------|------------|------------|
|  | (in thousands)    |            |            |
| <b>Cash Flows From Operating Activities:</b>                                       |                   |            |            |
| Net Income .....   | <b>\$ 208,393</b> | \$ 171,753 | \$ 161,625 |
| Adjustments to reconcile net income to net cash provided by operating activities:  |                   |            |            |
| Amortization of issuance costs and discount of long-term debt.....                 | <b>813</b>        | 845        | —          |
| Stock-based compensation .....   | <b>7,967</b>      | 4,740      | 6,556      |
| Excess tax benefits from stock-based compensation.....                             | —                 | —          | (964)      |
| Decrease (increase) in other assets .....  | <b>6,327</b>      | (17,882)   | (16,585)   |
| Equity in undistributed net income of subsidiaries .....                           | <b>(73,460)</b>   | (128,298)  | (65,340)   |
| Increase (decrease) in other liabilities and payable to non-bank subsidiaries..... | <b>36,273</b>     | 31,241     | (5,928)    |
| Total adjustments.....   | <b>(22,080)</b>   | (109,354)  | (82,261)   |
| Net cash provided by operating activities .....                                    | <b>186,313</b>    | 62,399     | 79,364     |
| <b>Cash Flows From Investing Activities</b>  |                   |            |            |
|  | —                 | —          | —          |
| <b>Cash Flows From Financing Activities:</b>                                       |                   |            |            |
| Repayments of long-term debt .....   | —                 | (100,000)  | —          |
| Additions to long-term debt.....   | —                 | 123,251    | —          |
| Net proceeds from issuance of common stock .....                                   | <b>6,733</b>      | 9,007      | 16,167     |
| Excess tax benefits from stock-based compensation.....                             | —                 | —          | 964        |
| Dividends paid.....  | <b>(89,654)</b>   | (80,368)   | (69,382)   |
| Acquisition of treasury stock.....   | <b>(95,308)</b>   | —          | (18,545)   |
| Net cash used in financing activities .....  | <b>(178,229)</b>  | (48,110)   | (70,796)   |
| Net Increase in Cash and Cash Equivalents .....                                    | <b>8,084</b>      | 14,289     | 8,568      |
| Cash and Due From Banks at Beginning of Year.....                                  | <b>22,857</b>     | 8,568      | —          |
| Cash and Due From Banks at End of Year .....                                       | <b>\$ 30,941</b>  | \$ 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, 2018, 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, 2018, 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/ MARK R. MCCOLLOM

---

**Mark R. McCollom**  
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, 2018 and 2017, 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, 2018, 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, 2018, 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, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, 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, 2018 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, 2019

**QUARTERLY CONSOLIDATED RESULTS OF OPERATIONS (UNAUDITED)**  
**(in thousands, except per-share data)**

|                                   | Three Months Ended |                  |                  |                  |
|-----------------------------------|--------------------|------------------|------------------|------------------|
|                                   | March 31           | June 30          | September 30     | December 31      |
| <b>2018</b>                       |                    |                  |                  |                  |
| Interest income .....             | \$ 177,687         | \$ 186,170       | \$ 194,048       | \$ 200,609       |
| Interest expense .....            | 26,369             | 30,103           | 33,921           | 37,665           |
| Net interest income .....         | 151,318            | 156,067          | 160,127          | 162,944          |
| Provision for credit losses ..... | 3,970              | 33,117           | 1,620            | 8,200            |
| Non-interest income .....         | 45,875             | 49,094           | 51,033           | 49,523           |
| Non-interest expenses .....       | 136,661            | 133,345          | 135,413          | 140,685          |
| Income before income taxes .....  | 56,562             | 38,699           | 74,127           | 63,582           |
| Income tax expense .....          | 7,082              | 3,502            | 8,494            | 5,499            |
| Net income .....                  | <u>\$ 49,480</u>   | <u>\$ 35,197</u> | <u>\$ 65,633</u> | <u>\$ 58,083</u> |
| Per share data:                   |                    |                  |                  |                  |
| Net income (basic) .....          | \$ 0.28            | \$ 0.20          | \$ 0.37          | \$ 0.33          |
| Net income (diluted) .....        | 0.28               | 0.20             | 0.37             | 0.33             |
| Cash dividends .....              | 0.12               | 0.12             | 0.12             | 0.16             |
| <b>2017</b>                       |                    |                  |                  |                  |
| 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             |

## **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, 2018, 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 2019 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](http://www.fult.com).

### **Item 11. Executive Compensation**

Incorporated by reference herein is the information appearing under the headings "Information Concerning Executive Compensation" and "Human Resources Committee Interlocks and Insider Participation" within the Corporation's 2019 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 2019 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 2019 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 2019 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, 2018 and 2017.
  - (ii) Consolidated Statements of Income - Years ended December 31, 2018, 2017 and 2016.
  - (iii) Consolidated Statements of Comprehensive Income - Years ended December 31, 2018, 2017 and 2016.
  - (iii) Consolidated Statements of Shareholders' Equity - Years ended December 31, 2018, 2017 and 2016.
  - (iv) Consolidated Statements of Cash Flows - Years ended December 31, 2018, 2017 and 2016.
  - (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 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.
  - 10.2.1 Schedule of Executive Employment Agreements between Fulton Financial Corporation and certain Executive Officers of Fulton Financial Corporation - Incorporated by reference to Exhibit 10.4.1 of the Fulton Financial Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2017.
  - 10.3 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.

- 10.3.1 Schedule of Key Employee Change in Control Agreements between Fulton Financial Corporation and certain Executive Officers of Fulton Financial Corporation - Incorporated by reference to Exhibit 10.5.1 of the Fulton Financial Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2017.
- 10.4 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.
- 10.5 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.
- 10.6 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.
- 10.7 Amendment No. 2 to Fulton Financial Corporation Amended and Restated Equity and Cash Incentive Compensation Plan - 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, 2017.
- 10.8 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.
- 10.9 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.
- 10.10 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.
- 10.11 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.
- 10.12 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.
- 10.13 Amendment No. 1 to Fulton Financial Corporation 2011 Directors' Equity Participation Plan - Incorporated by reference to Exhibit 10.15 of the Fulton Financial Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2017.
- 10.14 Fulton Financial Corporation Non-Employee Director Compensation - filed herewith.
- 10.15 Form of Director Stock Unit Award Agreement under the Directors' Equity Participation Plan, as amended - 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.
- 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, 2018 and December 31, 2017; (ii) the Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016; (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016; (iv) the Consolidated Statements of Shareholders' Equity for the years ended December 31, 2018, 2017 and 2016; (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016; 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, 2019

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.

| <b><u>Signature</u></b>  | <b><u>Capacity</u></b>  | <b><u>Date</u></b> |
|--|---|--------------------|
| <u>/S/ LISA CRUTCHFIELD</u><br><b>Lisa Crutchfield</b>         | Director  | March 1, 2019      |
| <u>/S/ MICHAEL J. DEPORTER</u><br><b>Michael J. DePorter</b>   | Executive Vice President<br>and Controller<br>(Principal Accounting Officer)                    | March 1, 2019      |
| <u>/S/ DENISE L. DEVINE</u><br><b>Denise L. Devine</b>         | Director  | March 1, 2019      |
| <u>/S/ PATRICK J. FREER</u><br><b>Patrick J. Freer</b>         | Director  | March 1, 2019      |
| <u>/S/ GEORGE W. HODGES</u><br><b>George W. Hodges</b>         | Director  | March 1, 2019      |
| <u>/S/ MARK R. MCCOLLOM</u><br><b>Mark R. McCollom</b>         | Senior Executive Vice President<br>and Chief Financial Officer<br>(Principal Financial Officer) | March 1, 2019      |
| <u>/S/ ALBERT MORRISON, III</u><br><b>Albert Morrison, III</b> | Director  | March 1, 2019      |
| <u>/S/ JAMES R. MOXLEY, III</u><br><b>James R. Moxley, III</b> | Director  | March 1, 2019      |

| <u>Signature</u>   | <u>Capacity</u>  | <u>Date</u>   |
|--|--|---------------|
| <u>/S/ R. SCOTT SMITH, JR.</u><br><b>R. Scott Smith, Jr.</b> | Director   | March 1, 2019 |
| <u>/S/ SCOTT A. SNYDER</u><br><b>Scott A. Snyder</b>         | Director   | March 1, 2019 |
| <u>/S/ RONALD H. SPAIR</u><br><b>Ronald H. Spair</b>         | Director   | March 1, 2019 |
| <u>/S/ MARK F. STRAUSS</u><br><b>Mark F. Strauss</b>         | Director   | March 1, 2019 |
| <u>/S/ ERNEST J. WATERS</u><br><b>Ernest J. Waters</b>       | Director   | March 1, 2019 |
| <u>/S/ E. PHILIP WENGER</u><br><b>E. Philip Wenger</b>       | Chairman and Chief Executive Officer (Principal Executive Officer) | March 1, 2019 |

## 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 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.
- 10.2.1 Schedule of Executive Employment Agreements between Fulton Financial Corporation and certain Executive Officers of Fulton Financial Corporation - Incorporated by reference to Exhibit 10.4.1 of the Fulton Financial Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2017.
- 10.3 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.

- 10.3.1 Schedule of Key Employee Change in Control Agreements between Fulton Financial Corporation and certain Executive Officers of Fulton Financial Corporation - Incorporated by reference to Exhibit 10.5.1 of the Fulton Financial Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2017.
- 10.4 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.
- 10.5 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.
- 10.6 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.
- 10.7 Amendment No. 2 to Fulton Financial Corporation Amended and Restated Equity and Cash Incentive Compensation Plan - 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, 2017.
- 10.8 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.
- 10.9 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.
- 10.10 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.
- 10.11 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.
- 10.12 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.
- 10.13 Amendment No. 1 to Fulton Financial Corporation 2011 Directors' Equity Participation Plan - Incorporated by reference to Exhibit 10.15 of the Fulton Financial Corporation Annual Report on Form 10-K for the fiscal year ended December 31, 2017.
- 10.14 Fulton Financial Corporation Non-Employee Director Compensation - filed herewith.
- 10.15 Form of Director Stock Unit Award Agreement under the Directors' Equity Participation Plan, as amended - 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.
- 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, 2018 and December 31, 2017; (ii) the Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016; (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016; (iv) the Consolidated Statements of Shareholders' Equity for the years ended December 31, 2018, 2017 and 2016; (v) the Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016; and, (iv) the Notes to Consolidated Financial Statements – filed herewith.

**Exhibit 21** - Subsidiaries of the Registrant

The following are the subsidiaries of Fulton Financial Corporation:

| <b>Subsidiary</b>  | <b>State of Incorporation or Organization</b> | <b>Name Under Which Business is Conducted</b>                                      |
|--|---|--|
| Fulton Bank, N.A.<br>One Penn Square<br>P.O. Box 4887<br>Lancaster, Pennsylvania 17604                     | United States of America                      | Fulton Financial Advisors<br>Clermont Wealth Strategies<br>Fulton Mortgage Company |
| Lafayette Ambassador Bank<br>2005 City Line Road<br>Bethlehem, Pennsylvania 18017                          | Pennsylvania                                  | Lafayette Ambassador Bank<br>Fulton Mortgage Company                               |
| Fulton Financial Realty Company<br>One Penn Square<br>P.O. Box 4887<br>Lancaster, Pennsylvania 17604       | Pennsylvania                                  | Fulton Financial Realty Company  |
| Central Pennsylvania Financial Corp.<br>100 W. Independence Street<br>Shamokin, PA 17872                   | Pennsylvania                                  | Central Pennsylvania Financial Corp.   |
| Fulton Bank of New Jersey<br>533 Fellowship Road<br>Mt. Laurel, NJ 08054                                   | New Jersey                                    | Fulton Bank of New Jersey<br>Fulton Mortgage Company                               |
| FFC Management, Inc.<br>P.O. Box 609<br>Georgetown, DE 19947   | Delaware                                      | FFC Management, Inc.   |
| Fulton Insurance Services Group, Inc.<br>One Penn Square<br>P.O. Box 7989<br>Lancaster, Pennsylvania 17604 | Pennsylvania                                  | Fulton Insurance Services Group, Inc.  |



**Exhibit 21** - Subsidiaries of the Registrant (Continued)

| <b>Subsidiary</b>  | <b>State of Incorporation or Organization</b> | <b>Name Under Which Business is Conducted</b> |
|--|---|---|
| FFC Penn Square, Inc.<br>P.O. Box 609<br>Georgetown, DE 19947                    | Delaware                                      | FFC Penn Square, Inc.                         |
| The Columbia Bank<br>7168 Gateway Drive<br>Columbia, MD 21046                    | Maryland                                      | The Columbia Bank<br>Fulton Mortgage Company  |
| Columbia Bancorp Statutory Trust<br>7168 Gateway Drive<br>Columbia, MD 21046     | Delaware                                      | Columbia Bancorp Statutory Trust              |
| Columbia Bancorp Statutory Trust II<br>7168 Gateway Drive<br>Columbia, MD 21046  | Delaware                                      | Columbia Bancorp Statutory Trust II           |
| Columbia Bancorp Statutory Trust III<br>7168 Gateway Drive<br>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, 2019, with respect to the consolidated balance sheets of Fulton Financial Corporation as of December 31, 2018 and 2017, 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, 2018, and the related notes (collectively, the "consolidated financial statements"), and the effectiveness of internal control over financial reporting as of December 31, 2018, which report appears in the December 31, 2018 annual report on Form 10-K of Fulton Financial Corporation.

/s/ KPMG LLP

Philadelphia, Pennsylvania

March 1, 2019

**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, 2019

/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, Mark R. McCollom, 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, 2019

/s/ Mark R. McCollom

---

Mark R. McCollom  
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, 2018, 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, 2019

/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, Mark R. McCollom, 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, 2018, 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, 2019

/s/ Mark R. McCollom

---

Mark R. McCollom  
Senior Executive Vice President and Chief Financial Officer

# INVESTOR INFORMATION

## Investor Information Stock Listing

Common shares of Fulton Financial Corporation are traded under the symbol "FULF" 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](http://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](http://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](http://www.fult.com).

The Annual Meeting of Shareholders of Fulton Financial Corporation will be held on Tuesday, May 21, 2019, 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**  
**Lafayette Ambassador Bank**  
**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**