

FULTON FINANCIAL CORP
Form 10-K
March 01, 2019

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 23-2195389

(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

One Penn Square, P. O. Box 4887, Lancaster, Pennsylvania 17604
(Address of principal executive offices) (Zip Code)

(717) 291-2411

(Registrant's telephone number, including area code)

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

Title of each class	Name of exchange on which registered
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Common Stock, \$2.50 par value	The NASDAQ Stock Market, LLC
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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 Accelerated filer "Emerging growth company"

Non-accelerated filer Smaller reporting company

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.

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

Non-Bank Subsidiaries

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

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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 (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 (2019 Est.)	Banking Subsidiary	No. of Financial Institutions		Deposit Market Share (June 30, 2018) ⁽¹⁾		
				Banks	Credit Thriffs/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 (2019 Est.)	Banking Subsidiary	No. of Financial Institutions		Deposit Market Share (June 30, 2018) ⁽¹⁾		
				Banks	Credit Thrifths	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:

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

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 (1)	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 Acts 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

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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.

Subsidiary Bank	Owned	Leased	Total Branches
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
Total	98	136	234

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

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

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 (1) 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.

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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
	High	Low	Share
			Dividend
2018			
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
2017			
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 ⁽¹⁾	Weighted-average exercise price of outstanding options, warrants and rights ⁽²⁾	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column) ⁽³⁾
Equity compensation plans approved by security holders	2,027,261	\$ 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.

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	
SUMMARY OF INCOME						
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	
PER COMMON SHARE						
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	
RATIOS						
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 ⁽¹⁾	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 ⁽¹⁾	63.8	64.5	67.2	68.6	65.7	
Dividend payout ratio	44.1	48.0	44.1	44.7	40.5	
PERIOD-END BALANCES						
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	
AVERAGE BALANCES						
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)					
Return on average tangible equity						
Net income	\$208,393	\$171,753	\$161,625	\$149,502	\$157,894	
Plus: Intangible amortization, net of tax	—	—	—	161	818	
Numerator	\$208,393	\$171,753	\$161,625	\$149,663	\$158,712	
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)	\$1,724,208	\$1,662,307	\$1,569,078	\$1,495,265	\$1,539,215	
Return on average tangible equity	12.09	% 10.33	% 10.30	% 10.01	% 10.31	%
Efficiency ratio						
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	\$534,655	\$514,551	\$489,519	\$474,287	\$457,987	
Net interest income (fully taxable equivalent) ⁽¹⁾	\$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	\$838,065	\$797,468	\$728,899	\$691,237	\$697,660	
Efficiency ratio	63.8	% 64.5	% 67.2	% 68.6	% 65.6	%
Non-performing assets to tangible equity and allowance for credit losses ("Texas Ratio")						
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	

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Tangible equity and allowance for credit losses (denominator)	\$1,885,427	\$1,874,385	\$1,760,884	\$1,681,750	\$1,650,793	
Texas Ratio	7.97	% 7.71	% 8.20	% 9.27	% 9.12	%

(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 ⁽¹⁾	12.09	% 10.33	%	
Net interest margin ⁽²⁾	3.40	% 3.28	%	
Efficiency ratio ⁽¹⁾	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	%	

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.

⁽¹⁾ 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."

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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 ⁽¹⁾	Yield/ Rate	Average Balance	Interest ⁽¹⁾	Yield/ Rate	Average Balance	Interest ⁽¹⁾	Yield/ Rate
	(dollars in thousands)								
ASSETS									
Interest-earning assets:									
Loans, net of unearned income ⁽²⁾	\$15,815,263	\$691,954	4.38%	\$15,236,612	\$620,803	4.07%	\$14,128,064	\$558,472	3.95%
Taxable investment securities ⁽³⁾	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 ⁽³⁾	416,119	15,285	3.65	407,157	17,794	4.37	327,098	14,865	4.54
Equity securities ⁽³⁾ 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 ⁽³⁾	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		
LIABILITIES AND EQUITY									
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%

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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 Increase (decrease) due to change in			2017 vs. 2016 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
Total interest income	\$26,100	\$52,467	\$78,567	\$48,309	\$20,160	\$68,469
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)
Total interest expense	\$2,216	\$32,339	\$34,555	\$3,389	\$7,786	\$11,175

Changes which are partially attributable to both volume and rate are allocated to the volume and rate
Note: 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
Total	\$15,815,263	4.38%	\$15,236,612	4.07%	\$578,651	3.8 %

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
Total demand and savings	13,035,073	0.38	12,710,371	0.12	324,702	2.6
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)
Total deposits	\$15,832,606	0.55%	\$15,481,221	0.37%	\$351,385	2.3 %

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
Total short-term customer funding	446,668	0.48	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 ⁽¹⁾	109,540	2.20	73,044	0.94	36,496	50.0
Total short-term borrowings	785,923	1.07	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)
Total long-term debt	977,573	3.26	1,034,444	3.18	(56,871)	(5.5)
Total	\$1,763,496	2.29%	\$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
Total	\$15,236,612	4.07%	\$14,128,064	3.95%	\$1,108,548	7.8%

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 (dollars in thousands)	Rate	Balance	Rate	\$	%
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
Total demand and savings	12,710,371	0.12	11,759,823	0.12	950,548	8.1
Brokered deposits	49,126	1.25	—	—	49,126	N/M
Time deposits	2,721,724	1.13	2,825,722	1.06	(103,998)	(3.7)
Total deposits	\$15,481,221	0.37%	\$14,585,545	0.31%	\$895,676	6.1 %

N/M - Not meaningful

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

During the third quarter of 2017, the Corporation began accepting deposits under an agreement with a non-bank third party pursuant to which excess cash in the accounts of customers of the third party is swept on a collective basis, as frequently as every business day, by the third party, into omnibus deposit accounts maintained by one of the Corporation's subsidiary banks. Under the agreement with the third party, generally, no more than \$100 million of excess cash in accounts of customers of the third party may be swept into the omnibus deposit accounts. The average balance in the omnibus accounts was \$49.1 million in 2017 and is shown as "brokered deposits" in the above table. This source of customer funding is considered to be both geographically diverse and relatively stable, with balances in the omnibus deposit accounts bearing interest at a rate based on the 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 (dollars in thousands)	Rate	Balance	Rate	\$	%
Short-term borrowings:						
Customer repurchase agreements	\$188,769	0.12%	\$184,978	0.11%	\$3,791	2.0 %
Customer short-term promissory notes	108,649	0.31	72,224	0.03	36,425	50.4
Total short-term customer funding	297,418	0.19	257,202	0.09	40,216	15.6
Federal funds purchased	163,102	0.92	127,604	0.45	35,498	27.8
Short-term FHLB advances ⁽¹⁾	73,044	0.94	10,921	0.43	62,123	N/M
Total short-term borrowings	533,564	0.52	395,727	0.21	137,837	34.8
Long-term debt:						
FHLB Advances	640,737	2.31	597,211	3.12	43,526	7.3
Other long-term debt	393,707	4.61	361,931	5.01	31,776	8.8
Total long-term debt	1,034,444	3.18	959,142	3.83	75,302	7.9

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Total borrowings \$1,568,008 2.28% \$1,354,869 2.78% \$213,139 15.7%

N/M - Not meaningful

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

Total average short-term borrowings increased \$137.8 million, or 34.8%, due to an increase in average short-term FHLB advances, customer short-term promissory notes and federal funds purchased. The cost of average short-term borrowings increased 31 basis points, to 0.52% in 2017, largely due to the 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 %
Other service charges and fees:				
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
Total other service charges and fees	53,777	52,859	918	1.7
Service charges on deposit accounts:				
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)
Total service charges on deposit accounts	48,889	51,006	(2,117)	(4.2)
Mortgage banking income:				
Gain on sales of mortgage loans	13,021	13,036	(15)	(0.1)
Mortgage servicing income	6,005	6,892	(887)	(12.9)
Total mortgage banking income	19,026	19,928	(902)	(4.5)
Other income:				
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)
Total other income	21,648	25,861	(4,213)	(16.3)
Total, excluding investment securities gains	195,488	198,903	(3,415)	(1.7)
Investment securities gains	37	9,071	(9,034)	N/M
Total	\$195,525	\$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)
Total	\$546,104	\$525,579	\$20,525	3.9 %

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 %
Other service charges and fees:				
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)
Total other service charges and fees	52,859	51,473	1,386	2.7
Service charges on deposit accounts:				
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)
Total service charges on deposit accounts	51,006	51,346	(340)	(0.7)
Mortgage banking income:				
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
Total mortgage banking income	19,928	19,415	513	2.6
Other non-interest income:				
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
Total other income	25,861	20,124	5,737	28.5
Total, excluding investment securities gains	198,903	187,628	11,275	6.0
Investment securities gains	9,071	2,550	6,521	N/M
Total	\$207,974	\$190,178	\$17,796	9.4 %

N/M - Not meaningful

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

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
Total	\$525,579	\$489,519	\$36,060	7.4 %

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)			
Assets				
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
Total Assets	\$20,682,152	\$20,036,905	\$645,247	3.2 %
Liabilities and Shareholders' Equity				
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)
Total Liabilities	18,434,579	17,807,048	627,531	3.5
Total Shareholders' Equity	2,247,573	2,229,857	17,716	0.8
Total Liabilities and Shareholders' Equity	\$20,682,152	\$20,036,905	\$645,247	3.2 %

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:

	2018	2017
	(in thousands)	
Available for Sale		
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
Total debt securities	2,080,294	2,547,038
Equity securities	—	918
Total available for sale securities	\$2,080,294	\$2,547,956
Held to Maturity		
State and municipal securities	\$156,134	\$—
Residential mortgage-backed securities	450,545	—
Total held to maturity securities	\$606,679	\$—

Total investment securities \$2,686,973 \$2,547,956

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) (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 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:

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

	2018	2017
	(in thousands)	
Commercial - industrial, financial and agricultural	\$67,493	\$156,277
Real estate - commercial mortgage	—	110,658
Total	\$67,493	\$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	\$ 16,165,800	\$ 15,768,247	\$ 14,699,272	\$ 13,838,602	\$ 13,111,716	
Average balance of loans, net of unearned income	\$ 15,815,263	\$ 15,236,612	\$ 14,128,064	\$ 13,330,973	\$ 12,885,180	
Balance of allowance for credit losses at beginning of year	\$ 176,084	\$ 171,325	\$ 171,412	\$ 185,931	\$ 204,917	
Loans charged off:						
Commercial – industrial, financial and agricultural	52,441	19,067	15,276	15,639	24,516	
Real estate - home equity and consumer	6,127	4,567	7,712	5,831	7,811	
Leasing, other and overdrafts	2,521	3,035	3,815	2,656	2,135	
Real estate – commercial mortgage	2,045	2,169	3,580	4,218	6,004	
Real estate – residential mortgage	1,574	687	2,326	3,612	2,918	
Real estate – construction	1,368	3,765	1,218	201	1,209	
Total loans charged off	66,076	33,290	33,927	32,157	44,593	
Recoveries of loans previously charged off:						
Commercial – industrial, financial and agricultural	4,994	7,771	8,981	5,264	4,256	
Real estate - home equity and consumer	2,393	1,969	2,466	2,492	2,347	
Real estate – construction	1,829	1,582	3,924	2,824	3,177	
Real estate – commercial mortgage	1,622	1,668	3,373	2,801	1,960	
Leasing, other and overdrafts	1,037	968	842	685	916	
Real estate – residential mortgage	620	786	1,072	1,322	451	
Total recoveries	12,495	14,744	20,658	15,388	13,107	
Net loans charged off	53,581	18,546	13,269	16,769	31,486	
Provision for credit losses	46,907	23,305	13,182	2,250	12,500	
Balance at end of year	\$ 169,410	\$ 176,084	\$ 171,325	\$ 171,412	\$ 185,931	
Components of Allowance for Credit Losses:						
Allowance for loan losses	\$ 160,537	\$ 169,910	\$ 168,679	\$ 169,054	\$ 184,144	
Reserve for unfunded lending commitments ⁽¹⁾	8,873	6,174	2,646	2,358	1,787	
Allowance for credit losses	\$ 169,410	\$ 176,084	\$ 171,325	\$ 171,412	\$ 185,931	
Selected Asset Quality Ratios:						
Net charge-offs to average loans	0.34	% 0.12	% 0.09	% 0.13	% 0.24	%
Allowance for loan losses to total loans	0.99	% 1.08	% 1.15	% 1.22	% 1.40	%
Allowance for credit losses to total loans	1.05	% 1.12	% 1.17	% 1.24	% 1.42	%

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Non-performing assets ⁽²⁾ to total assets	0.73	% 0.72	% 0.76	% 0.87	% 0.88	%
Non-performing assets ⁽²⁾ to total loans and OREO	0.93	% 0.92	% 0.98	% 1.13	% 1.15	%
Non-accrual loans to total loans	0.80	% 0.79	% 0.82	% 0.94	% 0.92	%
Allowance for credit losses to non-performing loans	121.29	% 130.67	% 130.15	% 118.37	% 134.26	%
Non-performing assets ⁽²⁾ to tangible equity and allowance for credit losses ⁽³⁾ ("Texas Ratio")	7.97	% 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.

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 Industrial, Financial and Agricultural (in thousands)	Real Estate Commercial Mortgage	Real Estate Construction	Real Estate - Residential Mortgage	Real Estate - Home Equity	Consumer	Leasing	Total
Balance of non-accrual loans at December 31, 2016	\$42,349	\$ 38,936	\$ 9,806	\$ 18,431	\$ 10,611	\$ —	\$—	\$ 120,133
Additions	48,717	20,596	10,657	3,817	5,264	2,227	1,553	92,831
Payments	(19,092)	(20,164)	(4,352)	(2,848)	(1,518)	—	—	(47,974)
Charge-offs ⁽¹⁾	(19,067)	(2,169)	(3,765)	(687)	(2,340)	(2,227)	(1,553)	(31,808)
Transfers to OREO	(3)	(1,464)	(149)	(2,729)	(1,895)	—	—	(6,240)
Transfers to accrual status	—	(913)	—	(293)	(987)	—	—	(2,193)
Balance of non-accrual loans at December 31, 2017	\$52,904	\$ 34,822	\$ 12,197	\$ 15,691	\$ 9,135	\$ —	\$ —	\$ 124,749
Additions	91,057	19,507	1,433	3,707	5,252	3,040	20,243	144,239
Payments	(39,887)	(15,961)	(4,872)	(1,120)	(1,951)	—	—	(63,791)
Charge-offs ⁽¹⁾	(52,441)	(2,045)	(1,368)	(1,574)	(3,087)	(3,040)	(974)	(64,529)
Transfers to OREO	(1,027)	(3,206)	—	(1,999)	(1,982)	—	—	(8,214)
Transfers to accrual status	(457)	(2,728)	—	(37)	(660)	—	—	(3,882)
Balance of non-accrual loans at December 31, 2018	\$50,149	\$ 30,389	\$ 7,390	\$ 14,668	\$ 6,707	\$ —	\$ 19,269	\$ 128,572

(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 ^{(1) (2) (3)}	\$ 128,572	\$ 124,749	\$ 120,133	\$ 129,523	\$ 121,080
Loans 90 days or more past due and still accruing ⁽²⁾	11,106	10,010	11,505	15,291	17,402
Total non-performing loans	139,678	134,759	131,638	144,814	138,482
OREO	10,518	9,823	12,815	11,099	12,022
Total non-performing assets	\$ 150,196	\$ 144,582	\$ 144,453	\$ 155,913	\$ 150,504

In 2018, the total interest income that would have been recorded if non-accrual loans had been current in (1) 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.

Excluded from non-performing assets as of December 31, 2018 were \$61.6 million of loans modified under trouble (3) 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	
	2018	2017	2016	2015	2014	(Decrease) Increase	%
	(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	\$139,678	\$134,759	\$131,638	\$144,814	\$138,482	\$4,919	3.7 %
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	61,605	66,379	59,560	60,558	67,621
Non-accrual TDRs ⁽¹⁾	28,659	29,051	27,850	31,035	24,616
Total TDRs	\$90,264	\$95,430	\$87,410	\$91,593	\$92,237

(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	\$10,518	\$9,823

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 Increase (Decrease)		Substandard or Lower		2018 vs. 2017 Increase (Decrease)		Total Criticized Loan	
	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	\$298,400
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, 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 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	\$631,540
% 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:

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	Delinquent ⁽¹⁾				Non-performing ⁽²⁾				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
Total	\$160,537	100.0 %	\$169,910	100.0 %	\$168,679	100.0 %	\$169,054	100.0 %	\$184,144	100.0 %

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
Total demand and savings	13,478,016	13,042,147	435,869	3.3
Brokered deposits	176,239	90,473	85,766	94.8

Time deposits	2,721,904	2,664,912	56,992	2.1
Total deposits	\$16,376,159	\$15,797,532	\$578,627	3.7 %

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

	2018	2017	Regulatory Minimum for Capital Adequacy	Fully Phased-in, with Capital Conservation Buffers
Total capital (to risk-weighted assets)	12.8%	13.0%	8.0%	10.5%
Tier I capital (to risk-weighted assets)	10.2%	10.4%	6.0%	8.5%
Common equity tier I (to risk-weighted assets)	10.2%	10.4%	4.5%	7.0%
Tier leverage capital (to average assets)	9.0%	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				Total
	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	
	(in thousands)				
Deposits with no stated maturity ⁽¹⁾	\$13,654,255	\$ —	\$ —	\$ —	\$13,654,255
Time deposits ⁽²⁾	1,561,694	920,579	184,677	54,954	2,721,904
Short-term borrowings ⁽³⁾	754,777	—	—	—	754,777
Long-term debt ⁽³⁾	252,351	341,410	130,195	268,323	992,279
Operating leases ⁽⁴⁾	18,013	32,935	25,102	43,307	119,357
Purchase obligations ⁽⁵⁾	19,434	43,376	10,347	—	73,157
Uncertain tax positions ⁽⁶⁾	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
Total commitments to extend credit	\$6,306,583
Standby letters of credit	\$309,352
Commercial letters of credit	48,682
Total letters of credit	\$358,034

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):

Rate Shock ⁽¹⁾	Annual change in net interest income	% Change in net interest income
+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)								
Available for sale								
U.S. Government sponsored agency securities	\$—	— %	\$ 28,683	2.80 %	\$ 2,949	3.08 %	\$—	— %
State and municipal ⁽¹⁾	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 ⁽²⁾	—	—	—	—	—	—	9,007	4.44
Total	\$6,740	3.18 %	\$ 70,182	3.24 %	\$ 106,709	4.75 %	\$ 339,623	3.97 %
Held to maturity								
State and municipal ⁽¹⁾	\$—	— %	\$—	— %	\$—	— %	\$ 156,134	4.16 %
Available for sale								
Collateralized mortgage obligations ⁽³⁾	\$832,080	2.75 %						
Residential mortgage-backed securities ⁽³⁾	463,344	2.39 %						
Commercial mortgage-backed securities ⁽³⁾	261,616	2.54 %						
Held to maturity								
Residential mortgage-backed securities ⁽³⁾	\$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)				
Commercial - industrial, financial and agricultural				
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
Real estate – mortgage ⁽¹⁾ :				

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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
Real estate – construction:				
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
	\$2,721,904

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	\$1,245,537

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
Assets		
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)
Net Loans	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
Total Assets	\$ 20,682,152	\$ 20,036,905
Liabilities		
Deposits:		
Noninterest-bearing	\$ 4,310,105	\$ 4,437,294
Interest-bearing	12,066,054	11,360,238
Total Deposits	16,376,159	15,797,532
Short-term borrowings:		
Federal funds purchased	—	220,000
Other short-term borrowings	754,777	397,524
Total Short-Term Borrowings	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
Total Liabilities	18,434,579	17,807,048
Shareholders' Equity		
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)
Total Shareholders' Equity	2,247,573	2,229,857
Total Liabilities and Shareholders' Equity	\$ 20,682,152	\$ 20,036,905

See Notes to Consolidated Financial Statements

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CONSOLIDATED
STATEMENTS
OF INCOME

(dollars in
thousands, except
per-share data)

	2018	2017	2016
Interest Income			
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
Total Interest Income	758,514	668,866	603,100
Interest Expense			
Deposits	87,712	57,791	44,693
Short-term borrowings	8,489	2,779	855
Long-term debt	31,857	32,932	36,780
Total Interest Expense	128,058	93,502	82,328
Net Interest Income	630,456	575,364	520,772
Provision for credit losses	46,907	23,305	13,182
Net Interest Income After Provision for Credit Losses	583,549	552,059	507,590
Non-Interest Income			
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	195,488	198,903	187,628
Investment securities gains, net	37	9,071	2,550
Total Non-Interest Income	195,525	207,974	190,178
Non-Interest Expense			
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
Total Non-Interest Expense	546,104	525,579	489,519
Income Before Income Taxes	232,970	234,454	208,249
Income taxes	24,577	62,701	46,624
Net Income	\$208,393	\$171,753	\$161,625

Per Share:

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

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CONSOLIDATED
STATEMENTS OF
COMPREHENSIVE
INCOME

(in thousands)

	2018	2017	2016
Net Income	\$208,393	\$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	(24,326)	10,432	(14,891)
Reclassification adjustment for securities gains included in net income	(30)	(5,894)	(1,657)
Amortization of net unrealized losses on securities transferred to held to maturity	2,098	—	—
Non-credit related unrealized gain (loss) on other-than-temporarily impaired debt securities	222	185	(185)
Net unrealized (losses) gains on available for sale investment securities	(22,036)	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)	1,400	(609)	(931)
Amortization of net unrecognized pension and postretirement income	1,648	1,361	1,216
Net unrealized gains on defined benefit pension and postretirement plans	3,048	752	285
Other Comprehensive (Loss) Income	(18,988)	5,475	(16,432)
Total Comprehensive Income	\$189,405	\$177,228	\$145,193

See Notes to Consolidated Financial Statements

CONSOLIDATED
STATEMENTS OF
SHAREHOLDERS'
EQUITY

(in thousands,
except per share
data)

	Common Stock		Additional	Retained	Accumulated	Treasury	Total
	Shares Outstanding	Amount	Paid-in Capital	Earnings	Other Comprehensive (Loss) Income	Stock	
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 ⁽¹⁾				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
CASH FLOWS FROM OPERATING ACTIVITIES:			
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	