

FULTON FINANCIAL CORP
Form 10-Q
November 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017, or

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

For the transition period from _____ to _____

Commission File No. 0-10587

FULTON FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

PENNSYLVANIA

(State or other jurisdiction of
incorporation or organization)

23-2195389

(I.R.S. Employer
Identification No.)

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

(Address of principal executive offices)

(Zip Code)

(717) 291-2411

(Registrant's telephone number, including area code)

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 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," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth 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 Exchange
Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's
classes of common stock, as of the latest practicable date:

Common Stock, \$2.50 Par Value –175,122,000 shares outstanding as of October 27, 2017.

FULTON FINANCIAL CORPORATION
 FORM 10-Q FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017
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Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

(in thousands, except per-share data)

| | September 30, 2017 (unaudited) | December 31, 2016 |
|--|--------------------------------------|----------------------|
| ASSETS | | |
| Cash and due from banks | \$99,803 | \$118,763 |
| Interest-bearing deposits with other banks | 582,845 | 233,763 |
| Federal Reserve Bank and Federal Home Loan Bank stock | 62,951 | 57,489 |
| Loans held for sale | 23,049 | 28,697 |
| Available for sale investment securities | 2,561,516 | 2,559,227 |
| Loans, net of unearned income | 15,486,899 | 14,699,272 |
| Less: Allowance for loan losses | (172,245) | (168,679) |
| Net Loans | 15,314,654 | 14,530,593 |
| Premises and equipment | 221,551 | 217,806 |
| Accrued interest receivable | 50,082 | 46,294 |
| Goodwill and intangible assets | 531,556 | 531,556 |
| Other assets | 614,853 | 620,059 |
| Total Assets | \$20,062,860 | \$18,944,247 |
| LIABILITIES | | |
| Deposits: | | |
| Noninterest-bearing | \$4,363,915 | \$4,376,137 |
| Interest-bearing | 11,777,865 | 10,636,727 |
| Total Deposits | 16,141,780 | 15,012,864 |
| Short-term borrowings: | | |
| Federal funds purchased | 5,812 | 278,570 |
| Other short-term borrowings | 292,939 | 262,747 |
| Total Short-Term Borrowings | 298,751 | 541,317 |
| Accrued interest payable | 10,568 | 9,632 |
| Other liabilities | 347,816 | 329,916 |
| Federal Home Loan Bank advances and other long-term debt | 1,038,159 | 929,403 |
| Total Liabilities | 17,837,074 | 16,823,132 |
| SHAREHOLDERS' EQUITY | | |
| Common stock, \$2.50 par value, 600 million shares authorized, 220.9 million shares issued in 2017 and 219.9 million shares issued in 2016 | 552,153 | 549,707 |
| Additional paid-in capital | 1,476,150 | 1,467,602 |
| Retained earnings | 812,148 | 732,099 |
| Accumulated other comprehensive loss | (24,203) | (38,449) |
| Treasury stock, at cost, 45.8 million shares in 2017 and 2016 | (590,462) | (589,844) |
| Total Shareholders' Equity | 2,225,786 | 2,121,115 |
| Total Liabilities and Shareholders' Equity | \$20,062,860 | \$18,944,247 |

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

| (in thousands, except per-share data) | Three months ended | | Nine months ended | |
|--|--------------------|-----------|-------------------|-----------|
| | September 30 | | September 30 | |
| | 2017 | 2016 | 2017 | 2016 |
| INTEREST INCOME | | | | |
| Loans, including fees | \$155,152 | \$136,639 | \$446,158 | \$405,361 |
| Investment securities: | | | | |
| Taxable | 11,423 | 10,874 | 34,811 | 34,036 |
| Tax-exempt | 2,920 | 2,550 | 8,625 | 6,910 |
| Dividends | 105 | 143 | 343 | 438 |
| Loans held for sale | 243 | 210 | 631 | 529 |
| Other interest income | 1,667 | 1,052 | 3,311 | 2,814 |
| Total Interest Income | 171,510 | 151,468 | 493,879 | 450,088 |
| INTEREST EXPENSE | | | | |
| Deposits | 16,023 | 11,311 | 40,709 | 32,925 |
| Short-term borrowings | 578 | 254 | 2,407 | 739 |
| Federal Home Loan Bank advances and other long-term debt | 8,100 | 9,338 | 24,812 | 27,889 |
| Total Interest Expense | 24,701 | 20,903 | 67,928 | 61,553 |
| Net Interest Income | 146,809 | 130,565 | 425,951 | 388,535 |
| Provision for credit losses | 5,075 | 4,141 | 16,575 | 8,182 |
| Net Interest Income After Provision for Credit Losses | 141,734 | 126,424 | 409,376 | 380,353 |
| NON-INTEREST INCOME | | | | |
| Service charges on deposit accounts | 13,022 | 13,078 | 38,336 | 38,532 |
| Other service charges and fees | 12,251 | 14,407 | 39,030 | 38,140 |
| Investment management and trust services | 12,157 | 11,425 | 36,097 | 33,660 |
| Mortgage banking income | 4,805 | 4,529 | 15,542 | 12,456 |
| Investment securities gains, net | 4,597 | 2 | 7,139 | 1,025 |
| Other | 5,142 | 4,708 | 14,874 | 13,610 |
| Total Non-Interest Income | 51,974 | 48,149 | 151,018 | 137,423 |
| NON-INTEREST EXPENSE | | | | |
| Salaries and employee benefits | 72,894 | 70,696 | 216,626 | 210,097 |
| Net occupancy expense | 12,180 | 11,782 | 37,159 | 35,813 |
| Data processing and software | 10,301 | 8,727 | 28,334 | 27,477 |
| Other outside services | 6,582 | 5,783 | 19,836 | 17,347 |
| Amortization of tax credit investments | 3,503 | — | 7,652 | — |
| Professional fees | 3,388 | 2,535 | 9,056 | 8,221 |
| Equipment expense | 3,298 | 3,137 | 9,691 | 9,380 |
| FDIC insurance expense | 3,007 | 1,791 | 7,431 | 7,700 |
| Marketing | 2,089 | 1,774 | 6,309 | 5,314 |
| Other | 14,915 | 13,623 | 45,033 | 40,549 |
| Total Non-Interest Expense | 132,157 | 119,848 | 387,127 | 361,898 |
| Income Before Income Taxes | 61,551 | 54,725 | 173,267 | 155,878 |
| Income taxes | 12,646 | 13,257 | 35,515 | 36,403 |
| Net Income | \$48,905 | \$41,468 | \$137,752 | \$119,475 |
| PER SHARE: | | | | |
| Net Income (Basic) | \$0.28 | \$0.24 | \$0.79 | \$0.69 |
| Net Income (Diluted) | 0.28 | 0.24 | 0.78 | 0.69 |

| | | | | |
|--|------|------|------|------|
| Cash Dividends | 0.11 | 0.10 | 0.33 | 0.29 |
| See Notes to Consolidated Financial Statements | | | | |

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---------------------------------------|----------|-----------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Net Income | \$48,905 | \$41,468 | \$137,752 | \$119,475 |
| Other Comprehensive Income (Loss), net of tax: | | | | |
| Unrealized gain (loss) on securities | 3,320 | (3,580) | 17,861 | 26,285 |
| Reclassification adjustment for securities gains included in net income | (2,988) | (1) | (4,639) | (666) |
| Amortization of unrealized loss on derivative financial instruments | — | 4 | — | 12 |
| Amortization of net unrecognized pension and postretirement items | 340 | 379 | 1,024 | 877 |
| Other Comprehensive Income (Loss) | 672 | (3,198) | 14,246 | 26,508 |
| Total Comprehensive Income | \$49,577 | \$38,270 | \$151,998 | \$145,983 |

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)
NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016

(in thousands, except per-share data)

| | Common Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total |
|--|-----------------------|-----------|----------------------------------|----------------------|--|-------------------|-------------|
| | Shares Outstanding | Amount | | | | | |
| Balance at December 31, 2016 | 174,040 | \$549,707 | \$1,467,602 | \$732,099 | \$ (38,449) | \$(589,844) | \$2,121,115 |
| Net income | | | | 137,752 | | | 137,752 |
| Other comprehensive income | | | | | 14,246 | | 14,246 |
| Stock issued | 1,017 | 2,446 | 5,209 | | | (618) | 7,037 |
| Stock-based compensation awards | | | 3,339 | | | | 3,339 |
| Common stock cash dividends - \$0.33 per share | | | | (57,703) | | | (57,703) |
| Balance at September 30, 2017 | 175,057 | \$552,153 | \$1,476,150 | \$812,148 | \$ (24,203) | \$(590,462) | \$2,225,786 |
| Balance at December 31, 2015 | 174,176 | \$547,141 | \$1,450,690 | \$641,588 | \$ (22,017) | \$(575,508) | \$2,041,894 |
| Net income | | | | 119,475 | | | 119,475 |
| Other comprehensive income | | | | | 26,508 | | 26,508 |
| Stock issued, including related tax benefits | 454 | 594 | 2,099 | | | 2,833 | 5,526 |
| Stock-based compensation awards | | | 4,808 | | | | 4,808 |
| Acquisition of treasury stock | (1,486) | | | | | (18,545) | (18,545) |
| Common stock cash dividends - \$0.29 per share | | | | (50,230) | | | (50,230) |
| Balance at September 30, 2016 | 173,144 | \$547,735 | \$1,457,597 | \$710,833 | \$ 4,491 | \$(591,220) | \$2,129,436 |

See Notes to Consolidated
Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

| | Nine months ended September 30 | |
|--|-----------------------------------|------------|
| | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income | \$ 137,752 | \$ 119,475 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit losses | 16,575 | 8,182 |
| Depreciation and amortization of premises and equipment | 21,013 | 20,547 |
| Net amortization of investment securities premiums | 7,412 | 7,434 |
| Investment securities gains, net | (7,139) | (1,025) |
| Gain on sales of mortgage loans held for sale | (10,122) | (11,967) |
| Proceeds from sales of mortgage loans held for sale | 470,927 | 493,457 |
| Originations of mortgage loans held for sale | (455,157) | (492,440) |
| Amortization of issuance costs on long-term debt | 618 | 347 |
| Stock-based compensation | 3,339 | 4,808 |
| Excess tax benefits from stock-based compensation | — | (58) |
| Increase in accrued interest receivable | (3,788) | (833) |
| Decrease (increase) in other assets | 38,108 | (9,075) |
| Increase in accrued interest payable | 936 | 2,921 |
| (Decrease) increase in other liabilities | (26,027) | 2,061 |
| Total adjustments | 56,695 | 24,359 |
| Net cash provided by operating activities | 194,447 | 143,834 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sales of securities available for sale | 44,485 | 84,978 |
| Proceeds from principal repayments and maturities of securities available for sale | 321,088 | 426,932 |
| Purchase of securities available for sale | (344,569) | (484,164) |
| Increase in short-term investments | (354,544) | (136,450) |
| Net increase in loans | (800,778) | (567,061) |
| Net purchases of premises and equipment | (24,758) | (23,021) |
| Net cash used in investing activities | (1,159,076) | (698,786) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net increase in demand and savings deposits | 1,014,697 | 880,795 |
| Net increase (decrease) in time deposits | 114,219 | (60,633) |
| Decrease in short-term borrowings | (242,566) | (233,621) |
| Additions to long-term debt | 223,251 | 16,000 |
| Repayments of long-term debt | (115,114) | (603) |
| Net proceeds from issuance of common stock | 7,037 | 5,468 |
| Excess tax benefits from stock-based compensation | — | 58 |
| Dividends paid | (55,855) | (48,590) |
| Acquisition of treasury stock | — | (18,545) |
| Net cash provided by financing activities | 945,669 | 540,329 |
| Net Decrease in Cash and Due From Banks | (18,960) | (14,623) |
| Cash and Due From Banks at Beginning of Period | 118,763 | 101,120 |
| Cash and Due From Banks at End of Period | \$ 99,803 | \$ 86,497 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash paid during the period for: | | |

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| | | |
|--|----------|----------|
| Interest | \$66,992 | \$58,632 |
| Income taxes | 7,881 | 9,404 |
| See Notes to Consolidated Financial Statements | | |

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FULTON FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 – Basis of Presentation

The accompanying unaudited consolidated financial statements of Fulton Financial Corporation (the "Corporation") have been prepared in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts of assets and liabilities as of the date of the financial statements as well as revenues and expenses during the period. Actual results could differ from those estimates. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2016. Operating results for the nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. The Corporation evaluates subsequent events through the date of filing of this Form 10-Q with the Securities and Exchange Commission ("SEC").

Recently Issued Accounting Standards

In May 2014, the FASB issued ASC Update 2014-09, "Revenue from Contracts with Customers." This standards update establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle prescribed by this standards update is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard applies to all contracts with customers, except those that are within the scope of other topics in the FASB ASC. The standard also requires significantly expanded disclosures about revenue recognition. The FASB has issued amendments to this standard (ASC Updates 2016-08, 2016-10, 2016-11, 2016-12 and 2017-13). These amendments provide further clarification to the standard. For public business entities, ASC Update 2014-09 is effective for interim and annual reporting periods beginning after December 15, 2017. For the Corporation, this standards update is effective with its March 31, 2018 quarterly report on Form 10-Q. The Corporation has evaluated the impact of the adoption of ASC Update 2014-09 on its consolidated financial statements and has not identified any significant changes in the timing of revenue recognition as a result of this amended guidance at this time. In addition, the Corporation is evaluating the expanded disclosure requirements included in the update. The Corporation plans to adopt this update on January 1, 2018 under the modified retrospective approach and does not expect the adoption of ASC Update 2014-09 to have a material impact on its consolidated financial statements.

In January 2016, the FASB issued ASC Update 2016-01, "Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities." ASC Update 2016-01 provides guidance regarding the income statement impact of equity investments held by an entity and the recognition of changes in fair value of financial liabilities when the fair value option is elected. This standard will require equity investments to be measured at fair value, with changes recorded in net income. ASC Update 2016-01 is effective for public business entities' annual and interim reporting periods beginning after December 15, 2017, with earlier adoption permitted. The Corporation intends to adopt this standards update effective with its March 31, 2018 quarterly report on Form 10-Q and does not expect the adoption of ASC Update 2016-01 to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASC Update 2016-02, "Leases." This standards update states that a lessee should recognize the assets and liabilities that arise from all leases with a term greater than 12 months. The core principle requires the lessee to recognize a liability to make lease payments and a "right-of-use" asset. The accounting applied by the lessor is relatively unchanged. The standards update also requires expanded qualitative and quantitative disclosures. In September of 2017, the FASB issued clarifying guidance to this standard (ASC Update 2017-13). For public business entities, ASC Update 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018. ASC Update 2016-02 mandates a modified retrospective transition for all entities, which requires restatement of all comparative periods in the year of adoption. Early adoption is permitted. For the Corporation, this standards update is effective with its March 31, 2019 quarterly report on Form 10-Q. The Corporation is currently evaluating the impact of the adoption of ASC Update 2016-02 on its consolidated financial statements. The Corporation currently operates a number of branches that are leased, with the leases accounted for as operating leases that are not recognized on the consolidated balance sheet. Under ASC Update 2016-02, right-of-use assets and lease liabilities will need to be recognized on the consolidated balance sheet for these branches, which will also have an impact on regulatory capital ratios. The recognition

of operating leases on the consolidated balance sheet is expected to be the most significant impact of the adoption of this standards update.

In June 2016, the FASB issued ASC Update 2016-13, "Financial Instruments - Credit Losses." The new impairment model prescribed by this standards update is a single impairment model for all financial assets (i.e., loans and investments). The recognition of credit losses would be based on an entity's current estimate of expected losses (referred to as the Current Expected Credit Loss model, or "CECL"), as opposed to recognition of losses only when they are probable under current U.S. GAAP. ASC Update 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted. The Corporation intends to adopt this standards update effective with its March 31, 2020 quarterly report on Form 10-Q. The Corporation is currently evaluating the impact of the adoption of ASC Update 2016-13 on its consolidated financial statements.

In August 2016, the FASB issued ASC Update 2016-15, "Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments." This standards update provides guidance regarding the presentation of certain cash receipts and cash payments in the statement of cash flows, addressing eight specific cash flow classification issues, in order to reduce existing diversity in practice. ASC Update 2016-15 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted. The Corporation intends to adopt this standards update effective with its March 31, 2018 quarterly report on Form 10-Q and does not expect the adoption of ASC Update 2016-15 to have a material impact on its consolidated financial statements.

In November 2016, the FASB issued ASC Update 2016-18, "Statement of Cash Flows - Restricted Cash." This standards update provides guidance regarding the presentation of restricted cash in the statement of cash flows. The update requires companies to include amounts generally described as restricted cash and restricted cash equivalents, along with cash and cash equivalents, when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. It also requires an entity to disclose the nature of the restrictions on cash and cash equivalents. ASC Update 2016-18 is effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted. The Corporation intends to adopt this standards update effective with its March 31, 2018 quarterly report on Form 10-Q and does not expect the adoption of ASC Update 2016-18 to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASC Update 2017-04, "Intangibles - Goodwill and Other." This standards update eliminates Step 2 of the goodwill impairment test which measures the impairment amount. Identifying and measuring impairment will take place in a single quantitative step. In addition, no separate qualitative assessment for reporting units with zero or negative carrying amount is required. Entities must disclose the existence of these reporting units and the amount of goodwill allocated to them. This update should be applied on a prospective basis, and an entity is required to disclose the nature of and reason for the change in accounting principle upon transition. ASC Update 2017-04 is effective for annual or interim goodwill impairment tests in reporting periods beginning after December 15, 2019. Early adoption is permitted. The Corporation intends to adopt this standards update effective with its 2020 goodwill impairment test and does not expect the adoption of ASC Update 2017-04 to have a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASC Update 2017-07, "Improving the Presentation of Net Periodic Pension Costs and Net Periodic Benefit Cost." This standards update requires a company to present service cost separately from the other components of net benefit cost. In addition, the update provides explicit guidance on how to present the service cost component and the other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. ASC Update 2017-07 is effective for annual or interim reporting periods beginning after December 15, 2017. Early adoption is permitted. The Corporation intends to adopt this standards update effective with its March 31, 2018 quarterly report on Form 10-Q and does not expect the adoption of ASC Update 2017-07 to have a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASC Update 2017-08, "Premium Amortization on Purchased Callable Debt Securities." This standards update requires that a company amortize the premium on callable debt securities to the earliest call date versus current U.S. GAAP which requires amortization over the contractual life of the securities. The amortization period for callable debt securities purchased at a discount would not be impacted by the new accounting standards update. This amendment is to be adopted on a modified retrospective basis with a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. ASC Update 2017-08 is effective for annual or interim reporting periods beginning after December 15, 2018. Early adoption is permitted. The Corporation intends to adopt this standards update effective with its March 31, 2019 quarterly report on Form 10-Q and does not expect the adoption of ASC Update 2017-08 to have a material impact on its consolidated financial statements.

In May 2017, the FASB issued ASC Update 2017-09, "Scope of Modification Accounting." This standards update provides clarity and reduces both (1) diversity in practice and (2) cost and complexity, when applying the guidance in the stock compensation

standard, to a change to the terms or conditions of a share-based payment award. ASC Update 2017-09 is effective for annual or interim reporting periods beginning after December 15, 2017. Early adoption is permitted. The Corporation intends to adopt this standards update effective with its March 31, 2018 quarterly report on Form 10-Q and does not expect the adoption of ASC Update 2017-09 to have a material impact on its consolidated financial statements.

Reclassifications

Certain amounts in the 2016 consolidated financial statements and notes have been reclassified to conform to the 2017 presentation.

NOTE 2 – Net Income Per Share

Basic net income per share is calculated as net income divided by the weighted average number of shares outstanding. Diluted net income per share is calculated as net income divided by the weighted average number of shares outstanding plus the incremental number of shares added as a result of converting common stock equivalents, calculated using the treasury stock method. The Corporation's common stock equivalents consist of outstanding stock options, restricted stock units ("RSUs") and performance-based restricted stock units ("PSUs"). PSUs are required to be included in weighted average shares outstanding if performance measures, as defined in each PSU award agreement, are met as of the end of the period.

A reconciliation of weighted average shares outstanding used to calculate basic net income per share and diluted net income per share follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---------------------------------------|---------|--------------------------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands) | | | |
| Weighted average shares outstanding (basic) | 174,991 | 173,020 | 174,582 | 173,248 |
| Impact of common stock equivalents | 1,225 | 1,044 | 1,194 | 1,017 |
| Weighted average shares outstanding (diluted) | 176,216 | 174,064 | 175,776 | 174,265 |

For the three and nine months ended September 30, 2016, 447,000 and 712,000 stock options, respectively, were excluded from the diluted net income per share computation as their effect would have been anti-dilutive. There were no stock options excluded for the three and nine months ended September 30, 2017.

NOTE 3 – Accumulated Other Comprehensive Income

The following table presents changes in other comprehensive income:

| | Before-Tax Amount | Tax Effect | Net of Tax Amount |
|--|----------------------|---------------|-------------------------|
| | (in thousands) | | |
| Three months ended September 30, 2017 | | | |
| Unrealized gain on securities | \$5,109 | \$(1,789) | \$3,320 |
| Reclassification adjustment for securities gains included in net income ⁽¹⁾ | (4,597) | 1,609 | (2,988) |
| Amortization of net unrecognized pension and postretirement items ⁽³⁾ | 523 | (183) | 340 |
| Total Other Comprehensive Income | \$1,035 | \$(363) | \$672 |
| Three months ended September 30, 2016 | | | |
| Unrealized loss on securities | \$(5,505) | \$1,925 | \$(3,580) |
| Reclassification adjustment for securities gains included in net income ⁽¹⁾ | (2) | 1 | (1) |
| Amortization of unrealized loss on derivative financial instruments ⁽²⁾ | 6 | (2) | 4 |
| Amortization of net unrecognized pension and postretirement items ⁽³⁾ | 583 | (204) | 379 |
| Total Other Comprehensive Loss | \$(4,918) | \$1,720 | \$(3,198) |
| Nine months ended September 30, 2017 | | | |
| Unrealized gain on securities | \$27,482 | \$(9,621) | \$17,861 |
| Reclassification adjustment for securities gains included in net income ⁽¹⁾ | (7,139) | 2,500 | (4,639) |
| Amortization of net unrecognized pension and postretirement items ⁽³⁾ | 1,575 | (551) | 1,024 |
| Total Other Comprehensive Income | \$21,918 | \$(7,672) | \$14,246 |
| Nine months ended September 30, 2016 | | | |
| Unrealized gain on securities | \$40,441 | \$(14,156) | \$26,285 |
| Reclassification adjustment for securities gains included in net income ⁽¹⁾ | (1,025) | 359 | (666) |
| Amortization of unrealized loss on derivative financial instruments ⁽²⁾ | 18 | (6) | 12 |
| Amortization of net unrecognized pension and postretirement items ⁽³⁾ | 1,349 | (472) | 877 |
| Total Other Comprehensive Income | \$40,783 | \$(14,275) | \$26,508 |

Amounts reclassified out of accumulated other comprehensive income. Before-tax amounts included in (1) "Investment securities gains, net" on the consolidated statements of income. See Note 4, "Investment Securities," for additional details.

(2) Amounts reclassified out of accumulated other comprehensive income. Before-tax amounts included in "Interest expense" on the consolidated statements of income.

Amounts reclassified out of accumulated other comprehensive income. Before-tax amounts included in "Salaries and employee benefits" on the consolidated statements of income. See Note 8, "Employee Benefit Plans," for additional details.

The following table presents changes in each component of accumulated other comprehensive income (loss), net of tax:

| | Unrealized Gains (Losses) on Investment Securities Not Other-Than- Temporarily Impaired | Unrealized Non-Credit Gains (Losses) on Other-Than-Temporary Impaired Debt Securities | Unrealized Effective Portions of Losses on Interest Rate Swaps | Unrecognized Pension and Postretirement Plan Income (Costs) | Total |
|---|--|---|---|---|-------------|
| (in thousands) | | | | | |
| Three months ended September 30, 2017 | | | | | |
| Balance at June 30, 2017 | \$ (10,157) | \$ 273 | \$ — | \$ (14,991) | \$ (24,875) |
| Other comprehensive income before reclassifications | 3,320 | — | — | — | 3,320 |
| Amounts reclassified from accumulated other comprehensive income (loss) | (2,988) | — | — | 340 | (2,648) |
| Balance at September 30, 2017 | \$ (9,825) | \$ 273 | \$ — | \$ (14,651) | \$ (24,203) |
| Three months ended September 30, 2016 | | | | | |
| Balance at June 30, 2016 | \$ 22,701 | \$ 458 | \$ (7) | \$ (15,463) | \$ 7,689 |
| Other comprehensive loss before reclassifications | (3,580) | — | — | — | (3,580) |
| Amounts reclassified from accumulated other comprehensive income (loss) | (1) | — | 4 | 379 | 382 |
| Balance at September 30, 2016 | \$ 19,120 | \$ 458 | \$ (3) | \$ (15,084) | \$ 4,491 |
| Nine months ended September 30, 2017 | | | | | |
| Balance at December 31, 2016 | \$ (23,047) | \$ 273 | \$ — | \$ (15,675) | \$ (38,449) |
| Other comprehensive income before reclassifications | 17,861 | — | — | — | 17,861 |
| Amounts reclassified from accumulated other comprehensive income (loss) | (4,639) | — | — | 1,024 | (3,615) |
| Balance at September 30, 2017 | \$ (9,825) | \$ 273 | \$ — | \$ (14,651) | \$ (24,203) |
| Nine months ended September 30, 2016 | | | | | |
| Balance at December 31, 2015 | \$ (6,499) | \$ 458 | \$ (15) | \$ (15,961) | \$ (22,017) |
| Other comprehensive income before reclassifications | 26,285 | — | — | — | 26,285 |
| Amounts reclassified from accumulated other comprehensive income (loss) | (666) | — | 12 | 877 | 223 |
| Balance at September 30, 2016 | \$ 19,120 | \$ 458 | \$ (3) | \$ (15,084) | \$ 4,491 |

NOTE 4 – Investment Securities

The following table presents the amortized cost and estimated fair values of investment securities, which were all classified as available for sale:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|-------------------|------------------------------|-------------------------------|----------------------------|
| (in thousands) | | | | |
| September 30, 2017 | | | | |
| U.S. Government sponsored agency securities | \$5,961 | \$ 54 | \$— | \$6,015 |
| State and municipal securities | 415,313 | 4,005 | (5,405) | 413,913 |
| Corporate debt securities | 92,355 | 2,578 | (1,956) | 92,977 |
| Collateralized mortgage obligations | 601,845 | 1,380 | (9,547) | 593,678 |
| Residential mortgage-backed securities | 1,184,797 | 5,850 | (8,561) | 1,182,086 |
| Commercial mortgage-backed securities | 161,960 | 299 | (627) | 161,632 |
| Auction rate securities | 107,410 | — | (9,254) | 98,156 |
| Total debt securities | 2,569,641 | 14,166 | (35,350) | 2,548,457 |
| Equity securities | 6,560 | 6,499 | — | 13,059 |
| Total | \$2,576,201 | \$ 20,665 | \$(35,350) | \$2,561,516 |
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| (in thousands) | | | | |
| December 31, 2016 | | | | |
| U.S. Government sponsored agency securities | \$132 | \$ 2 | \$— | \$134 |
| State and municipal securities | 405,274 | 2,043 | (15,676) | 391,641 |
| Corporate debt securities | 112,016 | 1,978 | (4,585) | 109,409 |
| Collateralized mortgage obligations | 604,095 | 1,943 | (12,178) | 593,860 |
| Residential mortgage-backed securities | 1,328,192 | 6,546 | (16,900) | 1,317,838 |
| Commercial mortgage-backed securities | 25,100 | — | (537) | 24,563 |
| Auction rate securities | 107,215 | — | (9,959) | 97,256 |
| Total debt securities | 2,582,024 | 12,512 | (59,835) | 2,534,701 |
| Equity securities | 12,231 | 12,295 | — | 24,526 |
| Total | \$2,594,255 | \$ 24,807 | \$(59,835) | \$2,559,227 |

Securities carried at \$1.9 billion and \$1.8 billion as of September 30, 2017 and December 31, 2016, respectively, were pledged as collateral to secure public and trust deposits and customer repurchase agreements.

Equity securities include common stocks of publicly traded financial institutions (estimated fair value of \$12.1 million at September 30, 2017 and \$23.5 million at December 31, 2016) and other equity investments (estimated fair value of \$1.0 million at both September 30, 2017 and December 31, 2016).

As of September 30, 2017, the financial institutions stock portfolio had a cost basis of \$5.8 million and an estimated fair value of \$12.1 million, including an investment in a single financial institution with a cost basis of \$4.2 million and an estimated fair value of \$8.8 million. The estimated fair value of this investment accounted for 73.4% of the estimated fair value of the Corporation's investments in the common stocks of publicly traded financial institutions. No other investment in a single financial institution in the financial institutions stock portfolio exceeded 10% of the portfolio's estimated fair value.

The amortized cost and estimated fair values of debt securities as of September 30, 2017, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities as certain investment securities are subject to call or prepayment with or without call or prepayment penalties.

| | Amortized Cost | Estimated Fair Value |
|--|-------------------|-------------------------|
| | (in thousands) | |
| Due in one year or less | \$23,940 | \$24,118 |
| Due from one year to five years | 30,708 | 31,196 |
| Due from five years to ten years | 114,114 | 115,336 |
| Due after ten years | 452,277 | 440,411 |
| | 621,039 | 611,061 |
| Residential mortgage-backed securities | 1,184,797 | 1,182,086 |
| Commercial mortgage-backed securities | 161,960 | 161,632 |
| Collateralized mortgage obligations | 601,845 | 593,678 |
| Total debt securities | \$2,569,641 | \$2,548,457 |

The following table presents information related to the gross realized gains and losses on the sales of equity and debt securities:

| | Gross Realized Gains | Gross Realized Losses | Net Gains (Losses) |
|---------------------------------------|----------------------------|-----------------------------|-----------------------|
| | (in thousands) | | |
| Three months ended September 30, 2017 | | | |
| Equity securities | \$4,817 | \$ — | \$ 4,817 |
| Debt securities | 12 | (232) | (220) |
| Total | \$4,829 | \$ (232) | \$ 4,597 |
| Three months ended September 30, 2016 | | | |
| Equity securities | \$2 | \$ — | \$ 2 |
| Debt securities | — | — | — |
| Total | \$2 | \$ — | \$ 2 |
| Nine months ended September 30, 2017 | | | |
| Equity securities | \$7,167 | \$ — | \$ 7,167 |
| Debt securities | 218 | (246) | (28) |
| Total | \$7,385 | \$ (246) | \$ 7,139 |
| Nine months ended September 30, 2016 | | | |
| Equity securities | \$739 | \$ (10) | \$ 729 |
| Debt securities | 322 | (26) | 296 |
| Total | \$1,061 | \$ (36) | \$ 1,025 |

The cumulative balance of credit related other-than-temporary impairment charges, previously recognized as components of earnings, for debt securities held by the Corporation at September 30, 2017 and September 30, 2016 was \$10.0 million. There were no other-than-temporary impairment charges recognized for the three and nine months ended September 30, 2017 and September 30, 2016.

The following table presents the gross unrealized losses and estimated fair values of investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2017 and December 31, 2016:

| | Less than 12 months | | 12 months or longer | | Total | |
|--|----------------------|-------------------|----------------------|-------------------|----------------------|-------------------|
| | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses |
| September 30, 2017 | (in thousands) | | | | | |
| State and municipal securities | \$ 121,527 | \$(1,930) | \$ 87,466 | \$(3,475) | \$ 208,993 | \$(5,405) |
| Corporate debt securities | 3,570 | (16) | 31,533 | (1,940) | 35,103 | (1,956) |
| Collateralized mortgage obligations | 85,335 | (837) | 301,009 | (8,710) | 386,344 | (9,547) |
| Residential mortgage-backed securities | 796,019 | (8,359) | 5,513 | (202) | 801,532 | (8,561) |
| Commercial mortgage-backed securities | 87,260 | (627) | — | — | 87,260 | (627) |
| Auction rate securities | — | — | 98,156 | (9,254) | 98,156 | (9,254) |
| Total debt securities | \$ 1,093,711 | \$(11,769) | \$ 523,677 | \$(23,581) | \$ 1,617,388 | \$(35,350) |
| December 31, 2016 | (in thousands) | | | | | |
| State and municipal securities | \$ 247,509 | \$(15,676) | \$ — | \$ — | \$ 247,509 | \$(15,676) |
| Corporate debt securities | 11,922 | (110) | 34,629 | (4,475) | 46,551 | (4,585) |
| Collateralized mortgage obligations | 166,905 | (3,899) | 258,237 | (8,279) | 425,142 | (12,178) |
| Residential mortgage-backed securities | 1,112,947 | (16,900) | — | — | 1,112,947 | (16,900) |
| Commercial mortgage-backed securities | 24,563 | (537) | — | — | 24,563 | (537) |
| Auction rate securities | — | — | 97,256 | (9,959) | 97,256 | (9,959) |
| Total debt securities | \$ 1,563,846 | \$(37,122) | \$ 390,122 | \$(22,713) | \$ 1,953,968 | \$(59,835) |

The change in fair value of these securities is attributable to changes in interest rates and not credit quality, and the Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost. Therefore, the Corporation does not consider these investments to be other-than-temporarily impaired as of September 30, 2017.

As of September 30, 2017, all of the auction rate securities (auction rate certificates, or "ARCs"), were rated above investment grade. All of the loans underlying the ARCs have principal payments which are guaranteed by the federal government. As of September 30, 2017, all ARCs were current and making scheduled interest payments, and based on management's evaluations, were not subject to any other-than-temporary impairment charges for the three and nine months ended September 30, 2017. The Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, which may be at maturity.

The majority of the Corporation's available for sale corporate debt securities are issued by financial institutions. The following table presents the amortized cost and estimated fair value of corporate debt securities:

| | September 30, 2017 | | December 31, 2016 | |
|--|--------------------|----------------------|-------------------|----------------------|
| | Amortized cost | Estimated fair value | Amortized cost | Estimated fair value |
| | (in thousands) | | | |
| Single-issuer trust preferred securities | \$ 39,186 | \$ 38,251 | \$ 43,746 | \$ 39,829 |
| Subordinated debt | 37,147 | 37,859 | 46,231 | 46,723 |
| Senior debt | 12,033 | 12,456 | 18,037 | 18,433 |
| Pooled trust preferred securities | — | 422 | — | 422 |
| Corporate debt securities issued by financial institutions | 88,366 | 88,988 | 108,014 | 105,407 |
| Other corporate debt securities | 3,989 | 3,989 | 4,002 | 4,002 |

| | | | | |
|--|----------|----------|-----------|-----------|
| Available for sale corporate debt securities | \$92,355 | \$92,977 | \$112,016 | \$109,409 |
|--|----------|----------|-----------|-----------|

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Single-issuer trust preferred securities had an unrealized loss of \$935,000 at September 30, 2017. Five of the 18 single-issuer trust preferred securities, with an amortized cost of \$6.9 million and an estimated fair value of \$6.6 million at September 30, 2017, were rated below investment grade by at least one ratings agency. All of the single-issuer trust preferred securities rated below investment grade were rated "BB" and "Ba". Two single-issuer trust preferred securities with an amortized cost of \$3.8 million and an estimated fair value of \$2.8 million at September 30, 2017 were not rated by any ratings agency.

Based on management's evaluations, no corporate debt securities were subject to any other-than-temporary impairment charges for the three and nine months ended September 30, 2017. The Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, which may be at maturity.

NOTE 5 – Loans and Allowance for Credit Losses

Loans, Net of Unearned Income

Loans, net of unearned income are summarized as follows:

| | September 30, December | |
|---|------------------------|--------------|
| | 2017 | 31, 2016 |
| | (in thousands) | |
| Real-estate - commercial mortgage | \$6,275,140 | \$6,018,582 |
| Commercial - industrial, financial and agricultural | 4,223,075 | 4,087,486 |
| Real-estate - residential mortgage | 1,887,907 | 1,601,994 |
| Real-estate - home equity | 1,567,473 | 1,625,115 |
| Real-estate - construction | 973,108 | 843,649 |
| Consumer | 302,448 | 291,470 |
| Leasing and other | 278,658 | 246,704 |
| Overdrafts | 3,400 | 3,662 |
| Loans, gross of unearned income | 15,511,209 | 14,718,662 |
| Unearned income | (24,310) | (19,390) |
| Loans, net of unearned income | \$15,486,899 | \$14,699,272 |

Allowance for Credit Losses

The allowance for credit losses consists of the allowance for loan losses and the reserve for unfunded lending commitments. The allowance for loan losses represents management's estimate of incurred losses in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The reserve for unfunded lending commitments represents management's estimate of incurred losses in its unfunded loan commitments and is recorded in other liabilities on the consolidated balance sheets. The allowance for credit losses is increased by charges to expense, through the provision for credit losses, and decreased by charge-offs, net of recoveries.

The Corporation's allowance for credit losses includes: (1) specific allowances allocated to loans evaluated for impairment under FASB ASC Section 310-10-35; and (2) allowances calculated for pools of loans measured for impairment under FASB ASC Subtopic 450-20.

The Corporation segments its loan portfolio by general loan type, or "portfolio segments," as presented in the table under the heading, "Loans, Net of Unearned Income," above. 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. Commercial loans include both secured 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 include direct consumer

installment loans and indirect vehicle loans.

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

| | September 30, 2017 | | December 31, 2016 | |
|--|--------------------|--|-------------------|--|
| | (in thousands) | | | |
| Allowance for loan losses | \$172,245 | | \$168,679 | |
| Reserve for unfunded lending commitments | 2,504 | | 2,646 | |
| Allowance for credit losses | \$174,749 | | \$171,325 | |

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|--|------------------------------------|-----------|-----------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands) | | | |
| Balance at beginning of period | \$174,998 | \$165,108 | \$171,325 | \$171,412 |
| Loans charged off | (7,795) | (7,672) | (25,917) | (29,573) |
| Recoveries of loans previously charged off | 2,471 | 3,592 | 12,766 | 15,148 |
| Net loans charged off | (5,324) | (4,080) | (13,151) | (14,425) |
| Provision for credit losses | 5,075 | 4,141 | 16,575 | 8,182 |
| Balance at end of period | \$174,749 | \$165,169 | \$174,749 | \$165,169 |

The Corporation has historically 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.

The following table presents the activity in the allowance for loan losses by portfolio segment:

| | Real Estate Commercial Mortgage | Commercial- Industrial, Financial and Agricultural | Real Estate - Home Equity | Real Estate Residential Mortgage | Real Estate - Construction | Consumer | Leasing, other and overdrafts | Unallocated | Total |
|--|---------------------------------------|---|---------------------------------|--|----------------------------------|----------|--|-------------|-----------|
| (in thousands) | | | | | | | | | |
| Three months ended September 30, 2017 | | | | | | | | | |
| Balance at June 30, 2017 | \$57,372 | \$67,642 | \$17,456 | \$16,439 | \$9,534 | \$1,794 | \$2,105 | \$— | \$172,342 |
| Loans charged off | (483) | (2,714) | (547) | (195) | (2,744) | (373) | (739) | — | (7,795) |
| Recoveries of loans previously charged off | 106 | 665 | 252 | 219 | 629 | 193 | 407 | — | 2,471 |
| Net loans charged off | (377) | (2,049) | (295) | 24 | (2,115) | (180) | (332) | — | (5,324) |
| Provision for loan losses (1) | (2,008) | 5,392 | 1,297 | 220 | (283) | 383 | 226 | — | 5,227 |
| Balance at Sept 30, 2017 | \$54,987 | \$70,985 | \$18,458 | \$16,683 | \$7,136 | \$1,997 | \$1,999 | \$— | \$172,245 |
| Three months ended September 30, 2016 | | | | | | | | | |
| Balance at June 30, 2016 | \$43,740 | \$51,755 | \$26,170 | \$21,226 | \$5,772 | \$2,984 | \$2,518 | \$8,381 | \$162,546 |
| Loans charged off | (1,350) | (3,144) | (709) | (802) | (150) | (685) | (832) | — | (7,672) |
| Recoveries of loans previously charged off | 296 | 1,539 | 241 | 228 | 898 | 222 | 168 | — | 3,592 |
| Net loans charged off | (1,054) | (1,605) | (468) | (574) | 748 | (463) | (664) | — | (4,080) |
| Provision for loan losses (1) | 3,171 | (1,871) | 1,419 | 1,452 | 23 | 852 | 1,075 | (2,061) | 4,060 |
| Balance at September 30, 2016 | \$45,857 | \$48,279 | \$27,121 | \$22,104 | \$6,543 | \$3,373 | \$2,929 | \$6,320 | \$162,526 |
| Nine months ended September 30, 2017 | | | | | | | | | |
| Balance at December 31, 2016 | \$46,842 | \$54,353 | \$26,801 | \$22,929 | \$6,455 | \$3,574 | \$3,192 | \$4,533 | \$168,679 |
| Loans charged off | (1,949) | (13,594) | (1,837) | (535) | (3,765) | (1,659) | (2,578) | — | (25,917) |
| Recoveries of loans previously charged off | 1,490 | 6,830 | 604 | 600 | 1,550 | 899 | 793 | — | 12,766 |
| Net loans charged off | (459) | (6,764) | (1,233) | 65 | (2,215) | (760) | (1,785) | — | (13,151) |

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| | | | | | | | | | |
|--|----------|-----------|----------|----------|----------|----------|----------|----------|-----------|
| Provision for loan losses (1) | 8,604 | 23,396 | (7,110) | (6,311) | 2,896 | (817) | 592 | (4,533) | 16,717 |
| Balance at | | | | | | | | | |
| September 30, 2017 | \$54,987 | \$70,985 | \$18,458 | \$16,683 | \$7,136 | \$1,997 | \$1,999 | \$— | \$172,245 |
| Nine months ended September 30, 2016 | | | | | | | | | |
| Balance at | | | | | | | | | |
| December 31, 2015 | \$47,866 | \$57,098 | \$22,405 | \$21,375 | \$6,529 | \$2,585 | \$2,468 | \$8,728 | \$169,054 |
| Loans charged off | (3,406) | (13,957) | (3,295) | (2,210) | (1,218) | (2,261) | (3,226) | — | (29,573) |
| Recoveries of loans previously charged off | 2,488 | 6,789 | 929 | 784 | 2,844 | 957 | 357 | — | 15,148 |
| Net loans charged off | (918) | (7,168) | (2,366) | (1,426) | 1,626 | (1,304) | (2,869) | — | (14,425) |
| Provision for loan losses (1) | (1,091) | (1,651) | 7,082 | 2,155 | (1,612) | 2,092 | 3,330 | (2,408) | 7,897 |
| Balance at | | | | | | | | | |
| September 30, 2016 | \$45,857 | \$48,279 | \$27,121 | \$22,104 | \$6,543 | \$3,373 | \$2,929 | \$6,320 | \$162,526 |

The provision for loan losses excluded decreases of \$152,000 and \$142,000 in the reserve for unfunded lending commitments for the three and nine months ended September 30, 2017, respectively and increases of \$81,000 and (1) \$285,000 in the reserve for unfunded lending commitments for the three and nine months ended September 30, 2016, respectively.

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The following table presents loans, net of unearned income and their related allowance for loan losses, by portfolio segment:

| | Real Estate - Commercial Mortgage (in thousands) | Commercial Industrial, Financial and Agricultural | Real Estate - Home Equity | Real Estate - Residential Mortgage | Real Estate - Construction | Consumer | Leasing, other and overdrafts | Unallocated | Total |
|---|--|--|------------------------------------|---|----------------------------------|-----------|--|-------------|--------------|
| Allowance for loan losses at September 30, 2017: | | | | | | | | | |
| Measured for impairment under FASB ASC Subtopic 450-20 | \$47,261 | \$55,486 | \$7,632 | \$6,488 | \$5,702 | \$1,976 | \$1,999 | \$— | \$126,544 |
| Evaluated for impairment under FASB ASC Section 310-10-35 | 7,726 | 15,499 | 10,826 | 10,195 | 1,434 | 21 | — | N/A | 45,701 |
| | \$54,987 | \$70,985 | \$18,458 | \$16,683 | \$7,136 | \$1,997 | \$1,999 | \$— | \$172,245 |
| Loans, net of unearned income at September 30, 2017: | | | | | | | | | |
| Measured for impairment under FASB ASC Subtopic 450-20 | \$6,228,935 | \$4,162,857 | \$1,543,551 | \$1,845,329 | \$959,584 | \$302,415 | \$257,748 | N/A | \$15,300,419 |
| Evaluated for impairment under FASB ASC Section 310-10-35 | 46,205 | 60,218 | 23,922 | 42,578 | 13,524 | 33 | — | N/A | 186,480 |
| | \$6,275,140 | \$4,223,075 | \$1,567,473 | \$1,887,907 | \$973,108 | \$302,448 | \$257,748 | N/A | \$15,486,899 |
| Allowance for loan losses at September 30, 2016: | | | | | | | | | |
| Measured for impairment under FASB ASC Subtopic 450-20 | \$36,151 | \$38,858 | \$17,828 | \$10,410 | \$4,422 | \$3,346 | \$2,929 | \$6,320 | \$120,264 |
| Evaluated for impairment under FASB ASC Section 310-10-35 | 9,706 | 9,421 | 9,293 | 11,694 | 2,121 | 27 | — | N/A | 42,262 |
| | \$45,857 | \$48,279 | \$27,121 | \$22,104 | \$6,543 | \$3,373 | \$2,929 | \$6,320 | \$162,526 |
| Loans, net of unearned income at September 30, 2016: | | | | | | | | | |
| Measured for impairment under FASB ASC Subtopic 450-20 | \$5,763,863 | \$3,972,461 | \$1,621,731 | \$1,496,461 | \$850,315 | \$283,633 | \$219,780 | N/A | \$14,208,244 |

| | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-----------|-----------|-----------|-----|--------------|
| Evaluated for impairment under FASB ASC Section 310-10-35 | 55,052 | 51,658 | 18,690 | 46,235 | 11,319 | 40 | — | N/A | 182,994 |
| | \$5,818,915 | \$4,024,119 | \$1,640,421 | \$1,542,696 | \$861,634 | \$283,673 | \$219,780 | N/A | \$14,391,238 |

N/A - Not applicable.

Impaired Loans

A loan is considered to be impaired if it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. Impaired loans consist of all loans on non-accrual status and accruing troubled debt restructurings ("TDRs"). An allowance for loan losses is established for an impaired loan if its carrying value exceeds its estimated fair value. Impaired loans to borrowers with total outstanding commitments greater than or equal to \$1.0 million are evaluated individually for impairment. Impaired loans to borrowers with total outstanding commitments less than \$1.0 million are pooled and measured for impairment collectively.

All loans individually evaluated for impairment under FASB ASC Section 310-10-35 are measured for losses on a quarterly basis. As of September 30, 2017 and December 31, 2016, substantially all of the Corporation's individually evaluated impaired loans with total outstanding balances greater than or equal to \$1.0 million were measured based on the estimated fair value of each loan's collateral. Collateral could be in the form of real estate, in the case of impaired commercial mortgages and construction loans, or business assets, such as accounts receivable or inventory, in the case of commercial and industrial loans. Commercial and industrial loans may also be secured by real property.

As of September 30, 2017 and 2016, approximately 95% and 73%, respectively, of impaired loans with principal balances greater than or equal to \$1.0 million, whose primary collateral is real estate, were measured at estimated fair value of the collateral using appraisals performed by state certified third-party appraisers that had been updated in the preceding 12 months.

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

The following table presents total impaired loans by class segment:

| | September 30, 2017 | | | December 31, 2016 | | |
|---------------------------------------|--------------------------------|------------------------|----------------------|--------------------------------|------------------------|----------------------|
| | Unpaid Principal Balance | Recorded Investment | Related Allowance | Unpaid Principal Balance | Recorded Investment | Related Allowance |
| | (in thousands) | | | | | |
| With no related allowance recorded: | | | | | | |
| Real estate - commercial mortgage | \$24,722 | \$ 21,000 | \$ — | \$28,757 | \$ 25,447 | \$ — |
| Commercial - secured | 32,738 | 30,053 | — | 29,296 | 25,526 | — |
| Real estate - residential mortgage | 4,603 | 4,603 | — | 4,689 | 4,689 | — |
| Construction - commercial residential | 14,086 | 9,450 | — | 6,271 | 4,795 | — |
| | 76,149 | 65,106 | | 69,013 | 60,457 | |
| With a related allowance recorded: | | | | | | |
| Real estate - commercial mortgage | 32,770 | 25,205 | 7,726 | 37,132 | 29,446 | 10,162 |
| Commercial - secured | 33,481 | 29,189 | 14,974 | 27,767 | 22,626 | 13,198 |
| Commercial - unsecured | 1,236 | 976 | 525 | 1,122 | 823 | 455 |
| Real estate - home equity | 27,739 | 23,922 | 10,826 | 23,971 | 19,205 | 9,511 |
| Real estate - residential mortgage | 43,979 | 37,975 | 10,195 | 48,885 | 41,359 | 11,897 |
| Construction - commercial residential | 6,119 | 2,883 | 1,006 | 10,103 | 4,206 | 1,300 |
| Construction - commercial | 186 | 100 | 36 | 681 | 435 | 145 |
| Construction - other | 1,096 | 1,091 | 392 | 1,096 | 1,096 | 423 |
| Consumer - direct | 24 | 19 | 13 | 21 | 21 | 14 |
| Consumer - indirect | 14 | 14 | 8 | 19 | 19 | 12 |
| | 146,644 | 121,374 | 45,701 | 150,797 | 119,236 | 47,117 |
| Total | \$222,793 | \$ 186,480 | \$ 45,701 | \$219,810 | \$ 179,693 | \$ 47,117 |

As of September 30, 2017 and December 31, 2016, there were \$65.1 million and \$60.5 million, respectively, of impaired loans that did not have a related allowance for loan loss. The estimated fair values of the collateral securing these loans exceeded their carrying amount, or they were previously charged down to realizable collateral values. Accordingly, no specific valuation allowance was considered to be necessary.

The following table presents average impaired loans by class segment:

| | Three months ended September 30 | | | | Nine months ended September 30 | | | |
|---------------------------------------|---------------------------------|-----------------|--------------------------------|-----------------|--------------------------------|-----------------|--------------------------------|-----------------|
| | 2017 | | 2016 | | 2017 | | 2016 | |
| | Average Recorded Investment(1) | Interest Income | Average Recorded Investment(1) | Interest Income | Average Recorded Investment(1) | Interest Income | Average Recorded Investment(1) | Interest Income |
| | (in thousands) | | | | | | | |
| With no related allowance recorded: | | | | | | | | |
| Real estate - commercial mortgage | \$21,698 | \$ 72 | \$25,048 | \$ 78 | \$22,770 | \$213 | \$23,929 | 219 |
| Commercial - secured | 33,044 | 46 | 23,836 | 32 | 29,309 | 128 | 18,400 | 68 |
| Real estate - residential mortgage | 4,616 | 27 | 6,151 | 33 | 4,645 | 79 | 5,826 | 96 |
| Construction - commercial residential | 8,747 | 5 | 5,734 | 10 | 6,745 | 11 | 6,658 | 45 |
| Construction - commercial | 295 | — | — | — | 298 | — | — | — |
| | 68,400 | 150 | 60,769 | 153 | 63,767 | 431 | 54,813 | 428 |
| With a related allowance recorded: | | | | | | | | |
| Real estate - commercial mortgage | 25,910 | 86 | 29,139 | 91 | 27,518 | 259 | 32,310 | 303 |
| Commercial - secured | 24,334 | 33 | 21,688 | 29 | 23,291 | 96 | 26,665 | 100 |
| Commercial - unsecured | 818 | 1 | 953 | 1 | 806 | 1 | 903 | 3 |
| Real estate - home equity | 22,837 | 150 | 18,283 | 76 | 20,957 | 362 | 17,589 | 203 |
| Real estate - residential mortgage | 38,329 | 225 | 40,913 | 221 | 39,584 | 680 | 42,399 | 683 |
| Construction - commercial residential | 5,047 | 4 | 4,947 | 8 | 5,397 | 11 | 5,568 | 37 |
| Construction - commercial | 113 | — | 476 | — | 186 | — | 546 | — |
| Construction - other | 1,091 | — | 756 | — | 1,094 | — | 579 | — |
| Consumer - direct | 19 | — | 19 | — | 19 | — | 17 | 1 |
| Consumer - indirect | 15 | — | 11 | — | 17 | — | 14 | — |
| Leasing, other and overdrafts | — | — | — | — | 356 | — | 712 | — |
| | 118,513 | 499 | 117,185 | 426 | 119,225 | 1,409 | 127,302 | 1,330 |
| Total | \$186,913 | \$ 649 | \$177,954 | \$ 579 | \$182,992 | \$1,840 | \$182,115 | 1,758 |

(1) All impaired loans, excluding accruing TDRs, were non-accrual loans. Interest income recognized for the three and nine months ended September 30, 2017 and 2016 represents amounts earned on accruing TDRs.

Credit Quality Indicators and Non-performing Assets

The following is a summary of the Corporation's internal risk rating categories:

• **Pass:** These loans do not currently pose undue credit risk and can range from the highest to average quality, depending on the degree of potential risk.

• **Special Mention:** These loans constitute an undue and unwarranted credit risk, but not to a point of justifying a classification of substandard. Loans in this category are currently acceptable, but are nevertheless potentially weak.

• **Substandard or Lower:** These loans are inadequately protected by current sound worth and paying capacity of the borrower. There exists a well-defined weakness or weaknesses that jeopardize the normal repayment of the debt.

The following table presents internal credit risk ratings for the indicated loan class segments:

| | Pass | | Special Mention | | Substandard or Lower | | Total | |
|---|------------------------|-------------------|--------------------|-------------------|----------------------|-------------------|--------------------|-------------------|
| | September 30, 2017 | December 31, 2016 | September 30, 2017 | December 31, 2016 | September 30, 2017 | December 31, 2016 | September 30, 2017 | December 31, 2016 |
| | (dollars in thousands) | | | | | | | |
| Real estate - commercial mortgage | \$6,028,523 | \$5,763,122 | \$118,947 | \$132,484 | \$127,670 | \$122,976 | \$6,275,140 | \$6,018,582 |
| Commercial - secured | 3,807,138 | 3,686,152 | 98,639 | 128,873 | 183,181 | 118,527 | 4,088,958 | 3,933,552 |
| Commercial - unsecured | 127,561 | 145,922 | 3,474 | 4,481 | 3,082 | 3,531 | 134,117 | 153,934 |
| Total commercial - industrial, financial and agricultural | 3,934,699 | 3,832,074 | 102,113 | 133,354 | 186,263 | 122,058 | 4,223,075 | 4,087,486 |
| Construction - commercial residential | 134,786 | 113,570 | 6,746 | 15,447 | 14,595 | 13,172 | 156,127 | 142,189 |
| Construction - commercial | 743,111 | 635,963 | 4,418 | 3,412 | 3,869 | 5,115 | 751,398 | 644,490 |
| Total construction (excluding Construction - other) | 877,897 | 749,533 | 11,164 | 18,859 | 18,464 | 18,287 | 907,525 | 786,679 |
| | \$10,841,119 | \$10,344,729 | \$232,224 | \$284,697 | \$332,397 | \$263,321 | \$11,405,740 | \$10,892,747 |
| % of Total | 95.1 | % 95.0 | % 2.0 | % 2.6 | % 2.9 | % 2.4 | % 100.0 | % 100.0 |

The risk rating process allows management to identify credits that potentially carry more risk in a timely manner and to allocate resources to managing troubled accounts. The Corporation believes that internal risk ratings are the most relevant credit quality indicator for the class segments presented above. The migration of loans through the various internal risk rating categories is a significant component of the allowance for credit loss methodology, 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 activities identify a deterioration or an improvement in the loan.

The Corporation does not assign internal risk ratings to smaller balance, homogeneous loans, such as home equity, residential mortgage, construction loans to individuals secured by residential real estate, consumer and lease receivables. For these loans, the most relevant credit quality indicator is delinquency status. The migration of loans through the various delinquency status categories is a significant component of the allowance for credit losses methodology for those loans, which bases the probability of default on this migration.

The following table presents a summary of performing, delinquent and non-performing loans for the indicated loan class segments:

| Performing | Delinquent (1) | Non-performing (2) | Total |
|------------|----------------|--------------------|-------|
|------------|----------------|--------------------|-------|

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| | September 30, 2017 | December 31, 2016 | September 30, 2017 | December 31, 2016 | September 30, 2017 | December 31, 2016 | September 30, 2017 | December 31, 2016 |
|--|-----------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------|-----------------------|----------------------|
| (dollars in thousands) | | | | | | | | |
| Real estate - home equity | \$ 1,542,289 | \$ 1,602,687 | \$ 12,955 | \$ 9,274 | \$ 12,229 | \$ 13,154 | \$ 1,567,473 | \$ 1,625,115 |
| Real estate - residential - mortgage | 1,845,495 | 1,557,995 | 20,769 | 20,344 | 21,643 | 23,655 | 1,887,907 | 1,601,994 |
| Construction - other | 64,110 | 55,874 | 382 | — | 1,091 | 1,096 | 65,583 | 56,970 |
| Consumer - direct | 55,490 | 93,572 | 158 | 1,752 | 63 | 1,563 | 55,711 | 96,887 |
| Consumer - indirect | 243,723 | 190,656 | 2,834 | 3,599 | 180 | 328 | 246,737 | 194,583 |
| Total consumer | 299,213 | 284,228 | 2,992 | 5,351 | 243 | 1,891 | 302,448 | 291,470 |
| Leasing | 256,784 | 229,591 | 884 | 1,068 | 80 | 317 | 257,748 | 230,976 |
| | \$ 4,007,891 | \$ 3,730,375 | \$ 37,982 | \$ 36,037 | \$ 35,286 | \$ 40,113 | \$ 4,081,159 | \$ 3,806,525 |
| % of Total | 98.2 | % 98.0 | % 0.9 | % 0.9 | % 0.9 | % 1.1 | % 100.0 | % 100.0 |

(1) Includes all accruing loans 30 days to 89 days past due.

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

The following table presents non-performing assets:

| | September 30, 2017 | December 31, 2016 |
|---|-----------------------|----------------------|
| | (in thousands) | |
| Non-accrual loans | \$123,345 | \$120,133 |
| Loans 90 days or more past due and still accruing | 13,124 | 11,505 |
| Total non-performing loans | 136,469 | 131,638 |
| Other real estate owned (OREO) | 10,542 | 12,815 |
| Total non-performing assets | \$147,011 | \$144,453 |

The following tables present past due status and non-accrual loans by portfolio segment and class segment:

| | September 30, 2017 | | | Non- accrual | Total ≥ 90 Days | Total Past Due | Current | Total |
|---|------------------------------|------------------------------|--|-----------------|--------------------|----------------------|--------------|--------------|
| | 30-59 Days Past Due | 60-89 Days Past Due | ≥ 90 Days Past Due and Accruing | | | | | |
| | (in thousands) | | | | | | | |
| Real estate - commercial mortgage | \$10,276 | \$2,297 | \$2,884 | \$31,766 | \$34,650 | \$47,223 | \$6,227,917 | \$6,275,140 |
| Commercial - secured | 8,382 | 2,378 | 1,503 | 51,787 | 53,290 | 64,050 | 4,024,908 | 4,088,958 |
| Commercial - unsecured | 114 | 34 | — | 919 | 919 | 1,067 | 133,050 | 134,117 |
| Total commercial - industrial, financial and agricultural | 8,496 | 2,412 | 1,503 | 52,706 | 54,209 | 65,117 | 4,157,958 | 4,223,075 |
| Real estate - home equity | 11,192 | 1,763 | 3,096 | 9,133 | 12,229 | 25,184 | 1,542,289 | 1,567,473 |
| Real estate - residential mortgage | 15,106 | 5,663 | 5,258 | 16,385 | 21,643 | 42,412 | 1,845,495 | 1,887,907 |
| Construction - commercial residential | 400 | 18 | 60 | 12,164 | 12,224 | 12,642 | 143,485 | 156,127 |
| Construction - commercial | 366 | — | — | 100 | 100 | 466 | 750,932 | 751,398 |
| Construction - other | 382 | — | — | 1,091 | 1,091 | 1,473 | 64,110 | 65,583 |
| Total real estate - construction | 1,148 | 18 | 60 | 13,355 | 13,415 | 14,581 | 958,527 | 973,108 |
| Consumer - direct | 118 | 40 | 63 | — | 63 | 221 | 55,490 | 55,711 |
| Consumer - indirect | 2,393 | 441 | 180 | — | 180 | 3,014 | 243,723 | 246,737 |
| Total consumer | 2,511 | 481 | 243 | — | 243 | 3,235 | 299,213 | 302,448 |
| Leasing, other and overdrafts | 764 | 120 | 80 | — | 80 | 964 | 256,784 | 257,748 |
| Total | \$49,493 | \$12,754 | \$13,124 | \$123,345 | \$136,469 | \$198,716 | \$15,288,183 | \$15,486,899 |

| | December 31, 2016 | | | | | | Current | Total |
|---|---------------------|---------------------|---------------------------------|-------------|-----------------|----------------|--------------|--------------|
| | 30-59 Days Past Due | 60-89 Days Past Due | ≥ 90 Days Past Due and Accruing | Non-accrual | Total ≥ 90 Days | Total Past Due | | |
| | (in thousands) | | | | | | | |
| Real estate - commercial mortgage | \$6,254 | \$1,622 | \$383 | \$38,936 | \$39,319 | \$47,195 | \$5,971,387 | \$6,018,582 |
| Commercial - secured | 6,660 | 2,616 | 959 | 41,589 | 42,548 | 51,824 | 3,881,728 | 3,933,552 |
| Commercial - unsecured | 898 | 35 | 152 | 760 | 912 | 1,845 | 152,089 | 153,934 |
| Total commercial - industrial, financial and agricultural | 7,558 | 2,651 | 1,111 | 42,349 | 43,460 | 53,669 | 4,033,817 | 4,087,486 |
| Real estate - home equity | 6,596 | 2,678 | 2,543 | 10,611 | 13,154 | 22,428 | 1,602,687 | 1,625,115 |
| Real estate - residential mortgage | 15,600 | 4,744 | 5,224 | 18,431 | 23,655 | 43,999 | 1,557,995 | 1,601,994 |
| Construction - commercial residential | 233 | 51 | 36 | 8,275 | 8,311 | 8,595 | 133,594 | 142,189 |
| Construction - commercial | 743 | — | — | 435 | 435 | 1,178 | 643,312 | 644,490 |
| Construction - other | — | — | — | 1,096 | 1,096 | 1,096 | 55,874 | 56,970 |
| Total real estate - construction | 976 | 51 | 36 | 9,806 | 9,842 | 10,869 | 832,780 | 843,649 |
| Consumer - direct | 1,211 | 541 | 1,563 | — | 1,563 | 3,315 | 93,572 | 96,887 |
| Consumer - indirect | 3,200 | 399 | 328 | — | 328 | 3,927 | 190,656 | 194,583 |
| Total consumer | 4,411 | 940 | 1,891 | — | 1,891 | 7,242 | 284,228 | 291,470 |
| Leasing, other and overdrafts | 543 | 525 | 317 | — | 317 | 1,385 | 229,591 | 230,976 |
| Total | \$41,938 | \$13,211 | \$11,505 | \$120,133 | \$131,638 | \$186,787 | \$14,512,485 | \$14,699,272 |

The following table presents TDRs, by class segment:

| | September 30, 2017 | December 31, 2016 |
|------------------------------------|--------------------|-------------------|
| | (in thousands) | |
| Real-estate - residential mortgage | \$26,193 | \$27,617 |
| Real-estate - commercial mortgage | 14,439 | 15,957 |
| Real estate - home equity | 14,789 | 8,594 |
| Commercial | 7,512 | 6,627 |
| Construction | 169 | 726 |
| Consumer | 33 | 39 |
| Total accruing TDRs | 63,135 | 59,560 |
| Non-accrual TDRs ⁽¹⁾ | 28,742 | 27,850 |
| Total TDRs | \$91,877 | \$87,410 |

(1) Included in non-accrual loans in the preceding table detailing non-performing assets.

As of September 30, 2017 and December 31, 2016, there were \$3.8 million and \$3.6 million of commitments, respectively, to lend additional funds to borrowers whose loans were modified under TDRs.

The following table presents TDRs, by class segment and type of concession for loans that were modified during the three and nine months ended September 30, 2017 and 2016:

| | Three months ended September 30 2017 | | 2016 | | Nine months ended September 30 2017 | | 2016 | |
|---|---|---|--------------------------------|---|--|---|--------------------------------|---|
| | Number of Recorded Loans | Post-Modification Investment (dollars in thousands) | Number of Recorded Loans | Post-Modification Investment (dollars in thousands) | Number of Recorded Loans | Post-Modification Investment (dollars in thousands) | Number of Recorded Loans | Post-Modification Investment (dollars in thousands) |
| Real estate – residential mortgage: | | | | | | | | |
| Extend maturity with rate concession | 2 | \$ 468 | — | \$ — | 2 | \$ 468 | — | \$ — |
| Extend maturity without rate concession | 2 | 151 | — | — | 4 | 488 | 2 | \$ 315 |
| Bankruptcy | — | — | 2 | 350 | 2 | 335 | 3 | 723 |
| Real estate - commercial mortgage: | | | | | | | | |
| Extend maturity without rate concession | 2 | 1,247 | — | — | 6 | 2,228 | — | \$ — |
| Bankruptcy | — | — | — | — | 1 | 12 | — | \$ — |
| Real estate - home equity: | | | | | | | | |
| Extend maturity without rate concession | 14 | 1,315 | 24 | 1,063 | 47 | 3,874 | 63 | \$ 3,058 |
| Bankruptcy | 6 | 127 | 11 | 563 | 23 | 1,643 | 33 | \$ 2,279 |
| Commercial: | | | | | | | | |
| Extend maturity without rate concession | 1 | 160 | 4 | 1,826 | 9 | 5,853 | 10 | 3,802 |
| Bankruptcy | — | — | — | — | 1 | 490 | — | — |
| Commercial – unsecured: | | | | | | | | |
| Extend maturity without rate concession | — | — | — | — | 1 | 33 | 2 | 103 |
| Construction - commercial residential: | | | | | | | | |
| Extend maturity without rate concession | — | — | — | — | 1 | 1,204 | — | — |
| Consumer - direct: | | | | | | | | |
| Bankruptcy | — | — | — | — | — | — | 1 | 2 |
| Consumer - indirect: | | | | | | | | |
| Bankruptcy | — | — | 1 | 21 | — | — | 1 | 21 |
| Total | 27 | \$ 3,468 | 42 | \$ 3,823 | 97 | \$ 16,628 | 115 | \$ 10,303 |

The following table presents TDRs, by class segment, as of September 30, 2017 and 2016, that were modified in the previous 12 months and had a post-modification payment default during the nine months ended September 30, 2017 and 2016. The Corporation defines a payment default as a single missed payment.

| | 2017 | 2016 |
|--------------------------|--------------------------|--------------------------|
| Number of Recorded Loans | Number of Recorded Loans | Number of Recorded Loans |
| Investment | Investment | Investment |
| (dollars in thousands) | (dollars in thousands) | (dollars in thousands) |

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| | | | | |
|---------------------------------------|----|----------|----|----------|
| Real estate - residential mortgage | 5 | \$ 1,321 | 7 | \$ 1,395 |
| Real estate - commercial mortgage | 3 | 653 | 2 | 129 |
| Real estate - home equity | 27 | 1,598 | 29 | 1,902 |
| Commercial | 2 | 264 | 6 | 2,593 |
| Commercial - unsecured | — | — | 1 | 26 |
| Construction - commercial residential | 1 | 1,198 | — | — |
| Construction - other | 1 | 411 | — | — |
| Total | 39 | \$ 5,445 | 45 | \$ 6,045 |

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NOTE 6 – Mortgage Servicing Rights

The following table summarizes the changes in mortgage servicing rights ("MSRs"), which are included in other assets on the consolidated balance sheets:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---------------------------------------|------------|-----------------------------------|------------|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands) | | | |
| Amortized cost: | | | | |
| Balance at beginning of period | \$38,180 | \$39,874 | \$38,822 | \$40,944 |
| Originations of mortgage servicing rights | 1,333 | 1,499 | 3,719 | 3,927 |
| Amortization | (1,639) | (2,064) | (4,667) | (5,562) |
| Balance at end of period | \$37,874 | \$39,309 | \$37,874 | \$39,309 |
| Valuation allowance: | | | | |
| Balance at beginning of period | \$— | \$(1,721) | \$(1,291) | \$— |
| (Additions) reductions to valuation allowance | — | (1,280) | 1,291 | (3,001) |
| Balance at end of period | \$— | \$(3,001) | \$— | \$(3,001) |
| Net MSRs at end of period | \$37,874 | \$36,308 | \$37,874 | \$36,308 |

MSRs represent the economic value of existing contractual rights to service mortgage loans that have been sold. Accordingly, actual and expected prepayments of the underlying mortgage loans can impact the value of MSRs. The Corporation accounts for MSRs at the lower of amortized cost or fair value.

The fair value of MSRs is estimated by discounting the estimated cash flows from servicing income, net of expense, over the expected life of the underlying loans at a discount rate commensurate with the risk associated with these assets. Expected life is based on the contractual terms of the loans, as adjusted for prepayment projections. Based on its fair value analysis, the Corporation determined that no adjustment to the valuation allowance was necessary for the three months ended September 30, 2017, while a reduction of \$1.3 million was required for the nine months ended September 30, 2017. Additions to the valuation allowance of \$1.3 million and \$3.0 million were necessary for the three and nine months ended September 30, 2016, respectively. Additions and reductions to the valuation allowance are recorded as decreases and increases, respectively, to "mortgage banking income" on the consolidated statements of income.

NOTE 7 – Stock-Based Compensation

The Corporation grants equity awards to employees, consisting of stock options, restricted stock, RSUs and PSUs under its Amended and Restated Equity and Cash Incentive Compensation Plan ("Employee Equity Plan"). In addition, employees may purchase stock under the Corporation's Employee Stock Purchase Plan. The fair value of equity awards granted to employees is recognized as compensation expense over the period during which employees are required to provide service in exchange for such awards. Compensation expense for PSUs is also recognized over the period during which employees are required to provide service in exchange for such awards, however, compensation expense may vary based on the expectations for actual performance relative to defined performance measures.

The Corporation also grants equity awards to non-employee members of its board of directors under the 2011 Directors' Equity Participation Plan ("Directors' Plan"). Under the Directors' Plan, the Corporation can grant equity

awards to non-employee holding company and subsidiary bank directors in the form of stock options, restricted stock or common stock.

Equity awards issued under the Employee Equity Plan are generally granted annually and become fully vested over or after a three-year vesting period. The vesting period for non-performance-based awards represents the period during which employees are required to provide service in exchange for such awards. Equity awards under the Directors' Plan generally vest immediately upon grant. Certain events, as defined in the Employee Equity Plan and the Directors' Plan, result in the acceleration of the vesting of equity awards.

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|--|---------------------------------------|---------|--------------------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands) | | | |
| Stock-based compensation expense | \$1,570 | \$1,552 | \$3,339 | \$4,808 |
| Tax benefit | (628) | (536) | (3,312) | (1,611) |
| Stock-based compensation expense, net of tax benefit | \$942 | \$1,016 | \$27 | \$3,197 |

Stock option fair values are estimated through the use of the Black-Scholes valuation methodology as of the date of grant. Stock options carry terms of up to ten years. Fair values for restricted stock, RSUs and a majority of PSUs are based on the trading price of the Corporation's stock on the date of grant and earn dividends or dividend equivalents during the vesting period, which are forfeitable if the awards do not vest. The fair value of certain PSUs are estimated through the use of the Monte Carlo valuation methodology as of the date of grant.

As of September 30, 2017, the Employee Equity Plan had 11.1 million shares reserved for future grants through 2023, and the Directors' Plan had approximately 360,000 shares reserved for future grants through 2021.

NOTE 8 – Employee Benefit Plans

The net periodic benefit cost for the Corporation's Defined Benefit Pension Plan ("Pension Plan") consisted of the following components:

| | Three months ended September 30 | | Nine months ended September 30 | |
|--------------------------------|---------------------------------------|---------|--------------------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands) | | | |
| Service cost ⁽¹⁾ | \$— | \$172 | \$— | \$516 |
| Interest cost | 830 | 880 | 2,490 | 2,640 |
| Expected return on plan assets | (451) | (580) | (1,353) | (1,739) |
| Net amortization and deferral | 663 | 605 | 1,989 | 1,815 |
| Net periodic benefit cost | \$1,042 | \$1,077 | \$3,126 | \$3,232 |

(1) The Pension Plan was curtailed effective January 1, 2008. Service cost was related to administrative costs associated with the plan and was not due to the accrual of additional participant benefits.

The net periodic benefit of the Corporation's Postretirement Benefits Plan ("Postretirement Plan") consisted of the following components:

| | Three months ended September 30 | | Nine months ended September 30 | |
|--------------------------------|---------------------------------------|---------|--------------------------------------|---------|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands) | | | |
| Interest cost | \$17 | \$21 | \$51 | \$64 |
| Expected return on plan assets | — | — | — | (1) |
| Net accretion and deferral | (141) | (138) | (423) | (413) |
| Net periodic benefit | \$(124) | \$(117) | \$(372) | \$(350) |

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

NOTE 9 – Derivative Financial Instruments

The Corporation manages its exposure to certain interest rate and foreign currency risks through the use of derivatives. None of the Corporation's outstanding derivative contracts are designated as hedges, and none are entered into for speculative purposes. Derivative instruments are carried at fair value, with changes in fair values recognized in earnings as components of non-interest income and non-interest expense on the consolidated statements of income.

Derivative contracts create counterparty credit risk with both the Corporation's customers and with institutional derivative counterparties. The Corporation manages counterparty credit risk through its credit approval processes, monitoring procedures and obtaining adequate collateral, when the Corporation determines it is appropriate to do so and in accordance with counterparty contracts.

Mortgage Banking Derivatives

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

Interest Rate Swaps

The Corporation enters into interest rate swaps with certain qualifying commercial loan customers to meet their interest rate risk management needs. The Corporation simultaneously enters into interest rate swaps with dealer counterparties, with identical notional amounts and terms. The net result of these interest rate swaps is that the customer pays a fixed rate of interest and the Corporation receives a floating rate. These interest rate swaps are derivative financial instruments and the gross fair values are recorded in other assets and other liabilities on the consolidated balance sheets, with changes in fair values during the period recorded in other non-interest expense on the consolidated statements of income. Fulton Bank, N.A. ("Fulton Bank"), the Corporation's largest banking subsidiary, exceeded \$10 billion in total assets as of December 31, 2016 and was required to clear all eligible interest rate swap contracts with a central counterparty, effective January 1, 2017. As a result, Fulton Bank became subject to the regulations of the Commodity Futures Trading Commission ("CFTC").

Foreign Exchange Contracts

The Corporation enters into foreign exchange contracts to accommodate the needs of its customers. Foreign exchange contracts are commitments to buy or sell foreign currency on a future date at a contractual price. The Corporation offsets its foreign exchange contract exposure with customers by entering into contracts with third-party correspondent financial institutions to mitigate its exposure to fluctuations in foreign currency exchange rates. The Corporation also holds certain amounts of foreign currency with international correspondent banks. The Corporation's policy limits the total net foreign currency open positions, which includes all outstanding contracts and foreign account balances, to \$500,000. Gross fair values are recorded in other assets and other liabilities on the consolidated balance sheets, with changes in fair values during the period recorded within other service charges and fees on the consolidated statements of income.

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

| | September 30, 2017 | | December 31, 2016 | |
|---|--------------------|------------------------------|-------------------|------------------------------|
| | Notional Amount | Asset (Liability) Fair Value | Notional Amount | Asset (Liability) Fair Value |
| | (in thousands) | | | |
| Interest Rate Locks with Customers | | | | |
| Positive fair values | \$ 141,250 | \$ 1,283 | \$ 87,119 | \$ 863 |
| Negative fair values | 5,530 | (16) | 18,239 | (227) |
| Net interest rate locks with customers | | 1,267 | | 636 |
| Forward Commitments | | | | |
| Positive fair values | 27,562 | 48 | 70,031 | 2,223 |
| Negative fair values | 77,000 | (207) | 19,964 | (112) |
| Net forward commitments | | (159) | | 2,111 |
| Interest Rate Swaps with Customers | | | | |
| Positive fair values | 1,329,394 | 34,028 | 876,744 | 24,397 |
| Negative fair values | 578,120 | (13,682) | 583,060 | (16,998) |
| Net interest rate swaps with customers | | 20,346 | | 7,399 |
| Interest Rate Swaps with Dealer Counterparties | | | | |
| Positive fair values | 578,120 | 13,682 | 583,060 | 16,998 |
| Negative fair values ⁽¹⁾ | 1,329,394 | (27,663) | 876,744 | (24,397) |
| Net interest rate swaps with dealer counterparties | | (13,981) | | (7,399) |
| Foreign Exchange Contracts with Customers | | | | |
| Positive fair values | 5,912 | 332 | 11,674 | 504 |
| Negative fair values | 5,473 | (226) | 4,659 | (221) |
| Net foreign exchange contracts with customers | | 106 | | 283 |
| Foreign Exchange Contracts with Correspondent Banks | | | | |
| Positive fair values | 8,978 | 293 | 7,040 | 241 |
| Negative fair values | 4,420 | (280) | 12,869 | (447) |
| Net foreign exchange contracts with correspondent banks | | 13 | | (206) |
| Net derivative fair value asset | | \$ 7,592 | | \$ 2,824 |

(1) Includes centrally cleared interest rate swaps with a notional amount of \$324.3 million and a fair value of \$0 as of September 30, 2017. Collateral is posted daily through a clearing agent for changes in the fair value.

The following table presents a summary of the fair value gains (losses) on derivative financial instruments:

| | Three months ended September 30, 2017 | | Nine months ended September 30, 2016 | |
|--|---------------------------------------|----------|--------------------------------------|----------|
| | 2017 | 2016 | 2017 | 2016 |
| | (in thousands) | | | |
| Interest rate locks with customers | \$(59) | \$ 178 | \$ 631 | \$ 1,922 |
| Forward commitments | (48) | 970 | (2,270) | (1,042) |
| Interest rate swaps with customers | (47) | (1,948) | 12,947 | 48,052 |
| Interest rate swaps with dealer counterparties | 1,248 | 1,948 | (6,582) | (48,052) |
| Foreign exchange contracts with customers | 140 | 47 | (177) | 502 |
| Foreign exchange contracts with correspondent banks | (111) | (266) | 219 | (613) |
| Net fair value gains on derivative financial instruments | \$ 1,123 | \$ 929 | \$ 4,768 | \$ 769 |

Fair Value Option

U.S. GAAP permits entities to measure many financial instruments and certain other items at fair value and requires certain disclosures for amounts for which the fair value option is applied. The Corporation has elected to measure mortgage loans held

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for sale at fair value to more accurately reflect the financial results of its mortgage banking activities in its consolidated financial statements. Derivative financial instruments related to these activities are also recorded at fair value, as noted above. The Corporation determines fair value for its mortgage loans held for sale based on the price that secondary market investors would pay for loans with similar characteristics, including interest rate and term, as of the date fair value is measured. Changes in fair values during the period are recorded as components of mortgage banking income on the consolidated statements of income. Interest income earned on mortgage loans held for sale is classified in interest income on the consolidated statements of income.

The following table presents a summary of the Corporation's mortgage loans held for sale:

| | September 30, 2017 | | December 31, 2016 | |
|------------|--------------------|----|-------------------|--|
| | | | | |
| | (in thousands) | | | |
| Cost | \$22,615 | \$ | 28,708 | |
| Fair value | 23,049 | | 28,697 | |

During the three months ended September 30, 2017 and 2016, the Corporation recorded losses related to changes in fair values of mortgage loans held for sale of \$120,000 and \$360,000, respectively. During the nine months ended September 30, 2017 and 2016, the Corporation recorded gains related to changes in fair values of mortgage loans held for sale of \$445,000 and \$504,000, respectively.

Balance Sheet Offsetting

Certain financial assets and liabilities may be eligible for offset on the consolidated balance sheets because they are subject to master netting arrangements or similar agreements. The Corporation elects to not offset certain assets and liabilities subject to such arrangements on the consolidated financial statements.

The Corporation is a party to interest rate swap transactions with financial institution counterparties and customers, disclosed in detail above. Under these agreements, the Corporation has the right to net-settle multiple contracts with the same counterparty in the event of default on, or termination of, any one contract. Cash collateral is posted by the party with a net liability position in accordance with contract thresholds and can be used to settle the fair value of the interest rate swap agreements in the event of default. Collateral is posted daily through a clearing agent for changes in the fair value of centrally cleared derivatives with negative fair values. As a result, the total fair values of interest rate swap derivative assets and derivative liabilities recognized on the consolidated balance sheet are not equal and offsetting.

The Corporation is also a party to foreign currency exchange contracts with financial institution counterparties, under which the Corporation has the right to net-settle multiple contracts with the same counterparty in the event of default on, or termination of, any one contract. As with interest rate swap contracts, collateral is posted by the party with a net liability position in accordance with contract thresholds and can be used to settle the fair value of the foreign currency exchange contracts in the event of default.

The Corporation also enters into agreements with customers in which it sells securities subject to an obligation to repurchase the same or similar securities, referred to as repurchase agreements. Under these agreements, the Corporation may transfer legal control over the assets but still maintain effective control through agreements that both entitle and obligate the Corporation to repurchase the assets. Therefore, repurchase agreements are reported as secured borrowings, classified in short-term borrowings on the consolidated balance sheets, while the securities underlying the repurchase agreements remain classified with investment securities on the consolidated balance sheets. The Corporation has no intention of setting off these amounts. Therefore, these repurchase agreements are not eligible for offset.

The following table presents the Corporation's financial instruments that are eligible for offset, and the effects of offsetting, on the consolidated balance sheets:

| | Gross Amounts Recognized on the Consolidated Balance Sheets | Gross Amounts Offset on the Consolidated Financial Instruments | Not Offset Cash Collateral | Net Amount |
|--|---|--|-------------------------------------|---------------|
| (in thousands) | | | | |
| September 30, 2017 | | | | |
| Interest rate swap derivative assets | \$47,710 | \$(14,163) | \$— | \$33,547 |
| Foreign exchange derivative assets with correspondent banks | 293 | (280) | — | 13 |
| Total | \$48,003 | \$(14,443) | \$— | \$33,560 |
| Interest rate swap derivative liabilities | \$41,345 | \$(14,163) | \$(15,520) | \$11,662 |
| Foreign exchange derivative liabilities with correspondent banks | 280 | (280) | — | — |
| Total | \$41,625 | \$(14,443) | \$(15,520) | \$11,662 |
| December 31, 2016 | | | | |
| Interest rate swap derivative assets | \$41,395 | \$(15,117) | \$— | \$26,278 |
| Foreign exchange derivative assets with correspondent banks | 241 | (241) | — | — |
| Total | \$41,636 | \$(15,358) | \$— | \$26,278 |
| Interest rate swap derivative liabilities | \$41,395 | \$(15,117) | \$(4,010) | \$22,268 |
| Foreign exchange derivative liabilities with correspondent banks | 447 | (241) | (206) | — |
| Total | \$41,842 | \$(15,358) | \$(4,216) | \$22,268 |

For derivative assets, amounts represent any derivative liability fair values that could be offset in the event of (1) counterparty or customer default. For derivative liabilities, amounts represent any derivative asset fair values that could be offset in the event of counterparty or customer default.

(2) Amounts represent collateral received from the counterparty or (posted by the Corporation).

NOTE 10 – Commitments and Contingencies

Commitments

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

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

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

September 30 December 31,
2017 2016
(in thousands)

| | | |
|------------------------------|-------------|--------------|
| Commitments to extend credit | \$6,418,318 | \$ 6,075,567 |
| Standby letters of credit | 331,096 | 356,359 |
| Commercial letters of credit | 41,819 | 38,901 |

The Corporation records a reserve for unfunded lending commitments, which represents management's estimate of losses associated with unused commitments to extend credit. See Note 5, "Loans and Allowance for Credit Losses," for additional details.

Residential Lending

Residential mortgages originated and sold by the Corporation consist primarily of conforming, prime loans sold to government sponsored agencies, such as the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac"). The Corporation also sells certain prime loans it originates to non-government sponsored agency investors.

The Corporation provides customary representations and warranties to government sponsored entities and investors that specify, among other things, that the loans have been underwritten to the standards established by the government sponsored entity or investor. The Corporation may be required to repurchase a loan, or reimburse the government sponsored entity or investor for a credit loss incurred on a loan, if it is determined that the representations and warranties have not been met. Such repurchases or reimbursements generally result from an underwriting or documentation deficiency. As of both September 30, 2017 and December 31, 2016, total outstanding repurchase requests totaled approximately \$543,000.

From 2000 to 2011, the Corporation sold loans to the Federal Home Loan Bank of Pittsburgh under its Mortgage Partnership Finance Program ("MPF Program"). The Corporation provided a "credit enhancement" for residential mortgage loans sold under the MPF Program whereby it would assume credit losses in excess of a defined "First Loss Account," or "FLA" balance, up to specified amounts. The FLA is funded by the Federal Home Loan Bank of Pittsburgh based on a percentage of the outstanding principal balance of loans sold. As of September 30, 2017, the unpaid principal balance of loans sold under the MPF Program was approximately \$89 million. As of September 30, 2017 and December 31, 2016, the reserve for estimated credit losses related to loans sold under the MPF Program was \$1.3 million and \$1.7 million, respectively. Required reserves are calculated based on delinquency status and estimated loss rates established through the Corporation's existing allowance for credit losses methodology for residential mortgage loans.

As of September 30, 2017 and December 31, 2016, the total reserve for losses on residential mortgage loans sold was \$2.1 million and \$2.5 million, respectively, including both reserves for credit losses under the MPF Program and reserves for representation and warranty exposures. Management believes that the reserves recorded as of September 30, 2017 are adequate. However, declines in collateral values, the identification of additional loans to be repurchased, or a deterioration in the credit quality of loans sold under the MPF Program could necessitate additional reserves, established through charges to earnings, in the future.

Legal Proceedings

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

As of the date of this report, the Corporation believes that any liabilities, individually or in the aggregate, which may result from the final outcomes of pending proceedings will not have a material adverse effect on the financial condition of the Corporation. However, legal proceedings are often unpredictable, and it is possible that the ultimate resolution of any such matters, if unfavorable, may be material to the Corporation's results of operations for any

particular period, depending, in part, upon the size of the loss or liability imposed and the operating results for the applicable period.

BSA/AML Enforcement Orders

The Corporation and each of its bank subsidiaries are subject to regulatory enforcement orders issued during 2014 and 2015 by their respective federal and state bank regulatory agencies relating to identified deficiencies in the Corporation's centralized Bank Secrecy Act and anti-money laundering compliance program (the "BSA/AML Compliance Program"), which was designed to comply with the requirements of the Bank Secrecy Act, the USA Patriot Act of 2001 and related anti-money laundering regulations (collectively, the "BSA/AML Requirements"). The regulatory enforcement orders, which are in the form of consent orders or orders to cease and desist issued upon consent ("Consent Orders"), generally require, among other things, that the Corporation and its bank subsidiaries undertake a number of required actions to strengthen and enhance the BSA/AML Compliance Program, and, in some cases, conduct retrospective reviews of past account activity and transactions, as well as certain reports filed in accordance with the BSA/AML Requirements, to determine whether suspicious activity and certain transactions in currency were properly identified and reported in accordance with the BSA/AML Requirements. The Corporation and its bank subsidiaries have

implemented numerous enhancements to the BSA/AML Compliance Program, completed the retrospective reviews required under the Consent Orders, and continue to strengthen and refine the BSA/AML Compliance Program to achieve a sustainable program in accordance with the BSA/AML Requirements. In addition to requiring strengthening and enhancement of the BSA/AML Compliance Program, while the Consent Orders remain in effect, the Corporation is subject to certain restrictions on expansion activities of the Corporation and its bank subsidiaries. Further, any failure to comply with the requirements of any of the Consent Orders involving the Corporation or its bank subsidiaries could result in further enforcement actions, the imposition of material restrictions on the activities of the Corporation or its bank subsidiaries, or the assessment of fines or penalties.

On October 27, 2017, the Office of the Comptroller of the Currency (the "OCC") terminated the Consent Orders that it issued on July 14, 2014 to three of the Corporation's bank subsidiaries, Fulton Bank, N.A., FNB Bank, N.A. and Swineford National Bank, relating to deficiencies in the BSA/AML Compliance Programs at those bank subsidiaries.

Fair Lending Investigation

During the second quarter of 2015, Fulton Bank, N.A., the Corporation's largest bank subsidiary, received a letter from the U.S. Department of Justice (the "Department") indicating that the Department had initiated an investigation regarding potential violations of fair lending laws (specifically, the Equal Credit Opportunity Act and the Fair Housing Act) by Fulton Bank, N.A. in certain geographies. Fulton Bank, N.A. has been and is cooperating with the Department and responding to the Department's requests for information. During the third quarter of 2016, the Department informed the Corporation, Fulton Bank, N.A., and three of the Corporation's other bank subsidiaries, Fulton Bank of New Jersey, The Columbia Bank and Lafayette Ambassador Bank, that the Department was expanding its investigation of potential lending discrimination on the basis of race and national origin to encompass additional geographies that were not included in the initial letter from the Department. In addition to requesting information concerning the lending activities of these bank subsidiaries, the Department also requested information concerning the Corporation and the residential mortgage lending activities conducted under the Fulton Mortgage Company brand, the trade name used by all of the Corporation's bank subsidiaries for residential mortgage lending. The investigation relates to lending activities during the period January 1, 2009 to the present. The Corporation and the identified bank subsidiaries are cooperating with the Department and responding to the Department's requests for information. The Corporation and its bank subsidiaries are not able at this time to determine the terms on which this investigation will be resolved or the timing of such resolution, or to reliably estimate the amounts of any settlement, fines or other penalties or the cost of any other remedial actions, if enforcement action is taken. In addition, should the investigation result in an enforcement action against the Corporation or its bank subsidiaries, or a settlement with the Department, the ability of the Corporation and its bank subsidiaries to engage in certain expansion or other activities may be restricted.

Agostino, et al. Litigation

Fulton Bank, N.A. (the "Bank"), the Corporation's largest bank subsidiary, and two unrelated, third-party defendants, Ameriprise Financial Services, Inc. ("Ameriprise") and Riverview Bank ("Riverview"), have been named as defendants in a lawsuit brought on behalf of a group of 67 plaintiffs filed on March 31, 2016, in the Court of Common Pleas for Dauphin County, Pennsylvania (Agostino, et al. v. Ameriprise Financial Services, Inc., et al., No. 2016-CV-2048-CV). The plaintiffs in this action, who are individuals, trustees of certain irrevocable trusts, or the executors of the estates of deceased individuals, were clients of Jeffrey M. Mottern, a now-deceased attorney, who is alleged to have operated a fraud scheme over a period of years through the sale of fictitious high-yield investments or by otherwise misappropriating funds entrusted to Mr. Mottern. Mr. Mottern is alleged to have used the proceeds of these activities to engage in speculative securities trading through defendant Ameriprise, which caused significant losses, and for Mr. Mottern's personal expenses. The allegations against the Bank relate to a commercial checking account at the Bank maintained by Mr. Mottern in connection with Mr. Mottern's law practice. The lawsuit alleges that

the Bank is liable to the plaintiffs for failing to properly monitor Mr. Mottern's checking account and detect Mr. Mottern's fraudulent activity, and specifically alleges that the Bank aided and abetted Mr. Mottern's: (1) fraud; (2) breach of fiduciary duty; (3) violations of the Pennsylvania Unfair Trade Practices and Consumer Protection Law; and (4) conversion. Similar claims have been asserted against Ameriprise and Riverview, which allegedly maintained a personal brokerage account and a trust account for client or other third-party funds, respectively, for Mr. Mottern. The lawsuit seeks damages from the defendants, including the Bank, alleged to be in excess of \$11.3 million, treble damages and attorneys' fees with respect to alleged violations of the Pennsylvania Unfair Trade Practices and Consumer Protection Law, punitive damages, plus interest and costs. On April 29, 2016, the Bank filed a Notice of Removal to remove this lawsuit to the United States District Court for the Middle District of Pennsylvania. On May 31, 2016, the plaintiffs filed a motion to remand the lawsuit to the Court of Common Pleas for Dauphin County, Pennsylvania. On October 24, 2016, the District Court granted the plaintiffs' motion and the lawsuit was remanded back to the Court of Common Pleas for Dauphin County. All defendants subsequently filed preliminary objections to the Complaint, including objections that, if granted, would result in dismissal of the case. On May 26, 2017, the Court of Common Pleas for Dauphin County denied all substantive preliminary objections filed by the Bank. On June 23, 2017, the Bank filed its Combined Motion for Partial Reconsideration of the Court's May 26, 2017 Order and Application for Amendment of the Order to Set Forth Expressly the

Statement in Pa.C.S. s. 702(b) (the “Motion”). The Bank also filed its Answer and New Matter (the “Answer”) on June 23, 2017. The plaintiffs subsequently responded to the Motion and the Answer.

In October 2017, the Bank and the plaintiffs agreed to settle the lawsuit. The plaintiffs' Steering Committee, which represents the interests of the 67 plaintiffs, approved the specific terms of the settlement on October 26, 2017 and recommended that each plaintiff execute the settlement agreement. The settlement involves the Bank making an aggregate payment to the plaintiffs' attorney on their behalf, in exchange for the plaintiffs' agreement to dismiss the claims against the Bank and any related matters with prejudice. The material terms of the settlement will become effective upon the dismissal of the claims against the Bank by the court, which the plaintiffs have agreed to pursue. The Corporation's insurance carrier has informed the Corporation that it will reimburse the Corporation for the full amount of the Bank's agreed upon settlement payment, and, as a result, any further financial impact to the Corporation is expected to be immaterial.

NOTE 11 – Fair Value Measurements

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

Level 1 – Inputs that represent quoted prices for identical instruments in active markets.

Level 2 – Inputs that represent quoted prices for similar instruments in active markets, or quoted prices for identical instruments in non-active markets. Also includes valuation techniques whose inputs are derived principally from observable market data other than quoted prices, such as interest rates or other market-corroborated means.

Level 3 – Inputs that are largely unobservable, as little or no market data exists for the instrument being valued.

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

The following tables present summaries of the Corporation's assets and liabilities measured at fair value on a recurring basis and reported on the consolidated balance sheets:

| | September 30, 2017 | | | |
|--|--------------------|-------------|-----------|-------------|
| | Level 1 | Level 2 | Level 3 | Total |
| | (in thousands) | | | |
| Mortgage loans held for sale | \$— | \$23,049 | \$— | \$23,049 |
| Available for sale investment securities: | | | | |
| Equity securities | 13,059 | — | — | 13,059 |
| U.S. Government sponsored agency securities | — | 6,015 | — | 6,015 |
| State and municipal securities | — | 413,913 | — | 413,913 |
| Corporate debt securities | — | 89,755 | 3,222 | 92,977 |
| Collateralized mortgage obligations | — | 593,678 | — | 593,678 |
| Residential mortgage-backed securities | — | 1,182,086 | — | 1,182,086 |
| Commercial mortgage-backed securities | — | 161,632 | — | 161,632 |
| Auction rate securities | — | — | 98,156 | 98,156 |
| Total available for sale investment securities | 13,059 | 2,447,079 | 101,378 | 2,561,516 |
| Other assets | 18,742 | 49,041 | — | 67,783 |
| Total assets | \$31,801 | \$2,519,169 | \$101,378 | \$2,652,348 |
| Other liabilities | \$18,607 | \$41,569 | \$— | \$60,176 |
| | December 31, 2016 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| | (in thousands) | | | |
| Mortgage loans held for sale | \$— | \$28,697 | \$— | \$28,697 |
| Available for sale investment securities: | | | | |
| Equity securities | 24,526 | — | — | 24,526 |
| U.S. Government sponsored agency securities | — | 134 | — | 134 |
| State and municipal securities | — | 391,641 | — | 391,641 |
| Corporate debt securities | — | 106,537 | 2,872 | 109,409 |
| Collateralized mortgage obligations | — | 593,860 | — | 593,860 |
| Residential mortgage-backed securities | — | 1,317,838 | — | 1,317,838 |
| Commercial mortgage-backed securities | — | 24,563 | — | 24,563 |
| Auction rate securities | — | — | 97,256 | 97,256 |
| Total available for sale investment securities | 24,526 | 2,434,573 | 100,128 | 2,559,227 |
| Other assets | 17,111 | 44,481 | — | 61,592 |
| Total assets | \$41,637 | \$2,507,751 | \$100,128 | \$2,649,516 |
| Other liabilities | \$17,032 | \$41,734 | \$— | \$58,766 |

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

Mortgage loans held for sale – This category consists of mortgage loans held for sale that the Corporation has elected to measure at fair value. Fair values as of September 30, 2017 and December 31, 2016 were measured based on the price that secondary market investors were offering for loans with similar characteristics. See Note 9, "Derivative Financial Instruments" for details related to the Corporation's election to measure assets and liabilities at fair value.

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

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

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

Equity securities – Equity securities consist of common stocks of financial institutions (\$12.1 million at September 30, 2017 and \$23.5 million at December 31, 2016) and other equity investments (\$1.0 million at September 30, 2017 and December 31, 2016). These Level 1 investments are measured at fair value based on quoted prices for identical securities in active markets.

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

Corporate debt securities – This category consists of subordinated debt issued by financial institutions (\$50.3 million at September 30, 2017 and \$65.2 million at December 31, 2016), single-issuer trust preferred securities issued by financial institutions (\$38.3 million at September 30, 2017 and \$39.8 million at December 31, 2016), pooled trust preferred securities issued by financial institutions (\$422,000 at both September 30, 2017 and December 31, 2016) and other corporate debt issued by non-financial institutions (\$4.0 million at both September 30, 2017 and December 31, 2016).

Level 2 investments include the Corporation's holdings of subordinated debt, other corporate debt issued by non-financial institutions and \$35.5 million and \$37.3 million of single-issuer trust preferred securities held at September 30, 2017 and December 31, 2016, respectively. The fair values for these corporate debt securities are determined by a third-party pricing service, as detailed above.

Level 3 investments include the Corporation's investments in pooled trust preferred securities (\$422,000 at both September 30, 2017 and December 31, 2016) and certain single-issuer trust preferred securities (\$2.8 million at September 30, 2017 and \$2.5 million at December 31, 2016). The fair values of these securities were determined based on quotes provided by third-party brokers who determined fair values based predominantly on internal valuation models which were not indicative prices or binding offers. The Corporation's third-party pricing service cannot derive fair values for these securities primarily due to inactive markets for similar investments. Level 3 values are tested by management primarily through trend analysis, by comparing current values to those reported at the end of the preceding calendar quarter, and determining if they are reasonable based on price and spread movements for this asset class.

Auction rate securities – Due to their illiquidity, ARCs are classified as Level 3 investments and are valued through the use of an expected cash flows model prepared by a third-party valuation expert. The assumptions used in preparing the expected cash flows model include estimates for coupon rates, time to maturity and market rates of return. The most significant unobservable input to the expected cash flows model is an assumed return to market liquidity sometime in the next five years. If the assumed return to market liquidity was lengthened beyond the next five years, this would result in a decrease in the fair value of these ARCs. The Corporation believes that the trusts underlying the

ARCs will self-liquidate as student loans are repaid. Level 3 fair values are tested by management through the performance of a trend analysis of the market price and discount rate.

Changes in the price and discount rates are compared to changes in market data, including bond ratings, parity ratios, balances and delinquency levels.

Other assets – Included in this category are the following:

Level 1 assets include mutual funds that are held in trust for employee deferred compensation plans (\$18.1 million at September 30, 2017 and \$16.4 million at December 31, 2016) and the fair value of foreign currency exchange contracts (\$625,000 at September 30, 2017 and \$745,000 at December 31, 2016). The mutual funds and foreign exchange prices used to measure these items at fair value are based on quoted prices for identical instruments in active markets.

Level 2 assets include the fair value of mortgage banking derivatives in the form of interest rate locks and forward commitments with secondary market investors (\$1.3 million at September 30, 2017 and \$3.1 million at December 31, 2016) and the fair value of interest rate swaps (\$47.7 million at September 30, 2017 and \$41.4 million at December 31, 2016). The fair values of the Corporation's interest rate locks, forward commitments and interest rate swaps represent the amounts that would be required to settle the derivative financial instruments at the balance sheet date. See Note 9, "Derivative Financial Instruments," for additional information.

Other liabilities – Included in this category are the following:

Level 1 liabilities include employee deferred compensation liabilities which represent amounts due to employees under deferred compensation plans (\$18.1 million at September 30, 2017 and \$16.4 million at December 31, 2016) and the fair value of foreign currency exchange contracts (\$506,000 at September 30, 2017 and \$668,000 at December 31, 2016). The fair value of these liabilities are determined in the same manner as the related assets, as described under the heading "Other assets" above.

Level 2 liabilities include the fair value of mortgage banking derivatives in the form of interest rate locks and forward commitments with secondary market investors (\$223,000 at September 30, 2017 and \$339,000 at December 31, 2016) and the fair value of interest rate swaps (\$41.3 million at September 30, 2017 and \$41.4 million at December 31, 2016). The fair values of these liabilities are determined in the same manner as the related assets, as described under the heading "Other assets" above.

The following table presents the changes in the Corporation's available for sale investment securities measured at fair value on a recurring basis using unobservable inputs (Level 3):

| | Three months ended September 30, 2017 | | |
|--|--|----------|----------|
| | Pooled trust preferred securities | | |
| | Single-issuer trust preferred securities | | |
| | ARC securities | | |
| | (in thousands) | | |
| Balance at June 30, 2017 | \$422 | \$ 2,775 | \$97,923 |
| Unrealized adjustment to fair value ⁽¹⁾ | — | (28) |) 233 |
| Discount accretion ⁽²⁾ | — | 3 | — |
| Balance at September 30, 2017 | \$422 | \$ 2,750 | \$98,156 |

| | Three months ended September 30, 2016 | | |
|--|---------------------------------------|----------|----------|
| Balance at June 30, 2016 | \$706 | \$ 2,425 | \$97,886 |
| Unrealized adjustment to fair value ⁽¹⁾ | — | 7 | (318) |
| Discount accretion ⁽²⁾ | — | 3 | 158 |
| Balance at September 30, 2016 | \$706 | \$ 2,435 | \$97,726 |

| | Nine months ended September 30, 2017 | | |
|--|--|----------|----------|
| | Pooled trust preferred securities | | |
| | Single-issuer trust preferred securities | | |
| | ARC securities | | |
| | (in thousands) | | |
| Balance at December 31, 2016 | \$422 | \$ 2,450 | \$97,256 |
| Unrealized adjustment to fair value ⁽¹⁾ | — | 291 | 705 |
| Discount accretion ⁽²⁾ | — | 9 | 195 |
| Balance at September 30, 2017 | \$422 | \$ 2,750 | \$98,156 |

| | Nine months ended September 30, 2016 | | |
|--|--------------------------------------|----------|----------|
| Balance at December 31, 2015 | \$706 | \$ 2,630 | \$98,059 |
| Unrealized adjustment to fair value ⁽¹⁾ | — | (204) |) (668) |
| Discount accretion ⁽²⁾ | — | 9 | 335 |
| Balance at September 30, 2016 | \$706 | \$ 2,435 | \$97,726 |

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

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

Certain assets are not measured at fair value on an ongoing basis, but are subject to fair value measurement in certain circumstances, such as upon their acquisition or when there is evidence of impairment. The following table presents the Corporation's Level 3 financial assets measured at fair value on a nonrecurring basis and reported on the Corporation's consolidated balance sheets:

| | September 30, 2017 | December 31, 2016 |
|--------------|-----------------------|----------------------|
| | (in thousands) | |
| Net loans | \$ 140,779 | \$ 132,576 |
| OREO | 10,542 | 12,815 |
| MSRs | 37,874 | 37,532 |
| Total assets | \$ 189,195 | \$ 182,923 |

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

Net loans – This category consists of loans that were measured for impairment under FASB ASC Section 310-10-35 and have been classified as Level 3 assets. The amount shown is the balance of impaired loans, net of the related allowance for loan losses. See Note 5, "Loans and Allowance for Credit Losses," for additional details.

OREO – This category includes OREO (\$10.5 million at September 30, 2017 and \$12.8 million at December 31, 2016) classified as Level 3 assets. Fair values for OREO were based on estimated selling prices less estimated selling costs for similar assets in active markets.

MSRs – This category includes MSRs (\$37.9 million at September 30, 2017 and \$37.5 million at December 31, 2016), classified as Level 3 assets. MSRs are initially recorded at fair value upon the sale of residential mortgage loans to secondary market investors. MSRs are amortized as a reduction to servicing income over the estimated lives of the underlying loans. MSRs are stratified and evaluated for impairment by comparing each stratum's carrying amount to its estimated fair value. Fair values are determined at the end of each quarter through a discounted cash flows valuation performed by a third-party valuation expert. Significant inputs to the valuation included expected net servicing income, the discount rate and the expected life of the underlying loans. Expected life is based on the contractual terms of the loans, as adjusted for prepayment projections. The weighted average annual constant prepayment rate and the weighted average discount rate used in the September 30, 2017 valuation were 12.4% and 9.5%, respectively. Management tests the reasonableness of the significant inputs to the third-party valuation in comparison to market data.

As required by FASB ASC Section 825-10-50, the following table details the book values and estimated fair values of the Corporation's financial instruments as of September 30, 2017 and December 31, 2016. In addition, a general description of the methods and assumptions used to estimate such fair values is also provided.

| | September 30, 2017 | | December 31, 2016 | |
|--|--------------------|----------------------|-------------------|----------------------|
| | Book Value | Estimated Fair Value | Book Value | Estimated Fair Value |
| (in thousands) | | | | |
| FINANCIAL ASSETS | | | | |
| Cash and due from banks | \$99,803 | \$99,803 | \$118,763 | \$118,763 |
| Interest-bearing deposits with other banks | 582,845 | 582,845 | 233,763 | 233,763 |
| Federal Reserve Bank and Federal Home Loan Bank stock | 62,951 | 62,951 | 57,489 | 57,489 |
| Loans held for sale ⁽¹⁾ | 23,049 | 23,049 | 28,697 | 28,697 |
| Available for sale investment securities ⁽¹⁾ | 2,561,516 | 2,561,516 | 2,559,227 | 2,559,227 |
| Net Loans ⁽¹⁾ | 15,314,654 | 15,086,654 | 14,530,593 | 14,387,454 |
| Accrued interest receivable | 50,082 | 50,082 | 46,294 | 46,294 |
| Other financial assets ⁽¹⁾ | 219,434 | 219,434 | 206,132 | 206,132 |
| FINANCIAL LIABILITIES | | | | |
| Demand and savings deposits | \$13,274,319 | \$13,274,319 | \$12,259,622 | \$12,259,622 |
| Brokered Deposits | 109,936 | 109,936 | — | — |
| Time deposits | 2,757,525 | 2,759,913 | 2,753,242 | 2,769,757 |
| Short-term borrowings | 298,751 | 298,751 | 541,317 | 541,317 |
| Accrued interest payable | 10,568 | 10,568 | 9,632 | 9,632 |
| Other financial liabilities ⁽¹⁾ | 234,160 | 234,160 | 216,080 | 216,080 |
| Federal Home Loan Bank advances and other long-term debt | 1,038,159 | 1,035,053 | 929,403 | 928,167 |

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

Fair values of financial instruments are significantly affected by the assumptions used, principally the timing of future cash flows and discount rates. Because assumptions are inherently subjective in nature, the estimated fair values cannot be substantiated by comparison to independent market quotes and, in many cases, the estimated fair values could not necessarily be realized in an immediate sale or settlement of the instrument. The aggregate fair value amounts presented do not necessarily represent management's estimate of the underlying value of the Corporation. For short-term financial instruments, defined as those with remaining maturities of 90 days or less, and excluding those recorded at fair value on the Corporation's consolidated balance sheets, book value was considered to be a reasonable estimate of fair value.

The following instruments are predominantly short-term:

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

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

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

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations ("Management's Discussion") relates to Fulton Financial Corporation (the "Corporation"), a financial holding company registered under the Bank Holding Company Act of 1956 and incorporated under the laws of the Commonwealth of Pennsylvania in 1982, and its wholly owned subsidiaries. Management's Discussion should be read in conjunction with the consolidated financial statements and notes presented in this report.

FORWARD-LOOKING STATEMENTS

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

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

- the impact of adverse conditions in the economy and capital markets on the performance of the Corporation's loan portfolio and demand for the Corporation's products and services;
- increases in non-performing assets, which may require the Corporation to increase the allowance for credit losses, charge off loans and incur elevated collection and carrying costs related to such non-performing assets;
- investment securities gains and losses, including other-than-temporary declines in the value of securities which may result in charges to earnings;
- the effects of market interest rates, and the relative balances of interest rate-sensitive assets to interest rate-sensitive liabilities, on net interest margin and net interest income;
- the effects of changes in interest rates on demand for the Corporation's products and services;
- the effects of changes in interest rates or disruptions in liquidity markets on the Corporation's sources of funding;
- the Corporation's ability to manage liquidity, both at the holding company level and at its bank subsidiaries;
- the impact of increased regulatory scrutiny of the banking industry;
- the effects of the increasing amounts of time and expense associated with regulatory compliance and risk management;
- the potential for negative consequences from regulatory violations, investigations and examinations, including potential supervisory actions and the assessment of fines and penalties;
 - the additional time, expense and investment required to comply with, and the restrictions on potential growth and investment activities resulting from, the existing enforcement orders applicable to the Corporation and its bank subsidiaries by federal and state bank regulatory agencies requiring improvement in compliance functions and other remedial actions, or any future enforcement orders;
- the Corporation's ability to manage the uncertainty associated with the delay in implementing many of the regulations mandated by the Dodd-Frank Act;
- the effects of, and uncertainty surrounding, potential changes in legislation, regulation and government policy as a result of the recent change in federal administration;
- 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 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 successfully transform its business model;
- the Corporation's ability to achieve its growth plans;
- the effects of competition on deposit rates and growth, loan rates and growth and net interest margin;
- the Corporation's ability to manage the level of non-interest expenses, including salaries and employee benefits expenses, operating risk losses and goodwill impairment;
- the effects of changes in accounting policies, standards, and interpretations on the Corporation's consolidated balance sheets and consolidated statements of income;

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 or cyberattacks;

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.

RESULTS OF OPERATIONS

Overview

Fulton Financial Corporation is a financial holding company comprised of six wholly owned bank subsidiaries which provide a full range of retail and commercial financial services through locations in Pennsylvania, Delaware, Maryland, New Jersey and Virginia and eight wholly owned non-bank subsidiaries. The Corporation generates the majority of its revenue through net interest income, or the difference between interest earned on loans, investments and other interest-earning assets, and interest paid on deposits and borrowings. Growth in net interest income is dependent upon balance sheet growth and 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, or properties. Offsetting these revenue sources are provisions for credit losses on loans, non-interest expenses and income taxes.

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

| | As of or for the Three months ended September 30 | | As of or for the Nine months ended September 30 | | |
|--|--|----------|---|-----------|---|
| | 2017 | 2016 | 2017 | 2016 | |
| Net income (in thousands) | \$48,905 | \$41,468 | \$137,752 | \$119,475 | |
| Diluted net income per share | \$0.28 | \$0.24 | \$0.78 | \$0.69 | |
| Return on average assets | 0.98 | % 0.89 | % 0.95 | % 0.87 | % |
| Return on average equity | 8.76 | % 7.78 | % 8.45 | % 7.64 | % |
| Return on average tangible equity ⁽¹⁾ | 11.52 | % 10.38 | % 11.18 | % 10.24 | % |
| Net interest margin ⁽²⁾ | 3.27 | % 3.14 | % 3.27 | % 3.19 | % |
| Efficiency ratio ⁽¹⁾ | 64.3 | % 65.2 | % 64.6 | % 67.0 | % |
| Non-performing assets to total assets | 0.73 | % 0.80 | % 0.73 | % 0.80 | % |
| Annualized net charge-offs to average loans | 0.14 | % 0.11 | % 0.12 | % 0.14 | % |

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

at the end of this "Overview" section.

(2) Presented on an FTE basis, using a 35% federal tax rate and statutory interest expense disallowances. See also the "Net Interest Income" section of Management's Discussion.

Net income for the three and nine months ended September 30, 2017 increased \$7.4 million, or 17.9%, and \$18.3 million, or 15.3%, respectively, compared to the same periods in 2016.

The following is a summary of financial highlights for the three and nine months ended September 30, 2017:

FTE Net Interest Income and Net Interest Margin - For the three and nine months ended September 30, 2017, FTE net interest income increased \$16.9 million, or 12.5%, and \$39.6 million, or 9.8%, in comparison to the same periods in 2016. These increases were driven by growth in interest-earning assets and improvements in the net interest margin, resulting from increases in yields on interest-earning assets exceeding increases in costs of interest-bearing liabilities. The growth in interest-earning assets accounted for approximately 70% and 87% of the FTE net interest income growth for the three and nine months ended September 30, 2017, respectively, while the increase in net interest margin accounted for the remaining 30% and 13% growth in these periods, respectively.

Asset Quality - The provision for credit losses for the three months ended September 30, 2017 was \$5.1 million, compared to a \$4.1 million provision for the same period in 2016. For the nine months ended September 30, 2017, the provision for credit losses was \$16.6 million, compared to an \$8.2 million provision for the same period in 2016. The increases in the 2017 periods were largely due to growth in the loan portfolio, as credit metrics were generally stable.

Annualized net charge-offs to average loans outstanding were 0.14% for the third quarter of 2017, compared to 0.11% for the third quarter of 2016. For the first nine months of 2017, annualized net charge-offs to average loans outstanding improved to 0.12%, compared to 0.14% for the same period of 2016.

Non-performing assets decreased \$3.1 million, or 2.1%, as of September 30, 2017 in comparison to September 30, 2016 and decreased to 0.73% as a percentage of total assets, compared to 0.80% as of September 30, 2016. The total delinquency rate improved to 1.28% as of September 30, 2017, from 1.38% as of September 30, 2016.

Non-interest Income - For the three and nine months ended September 30, 2017, non-interest income, excluding investment securities gains, increased \$770,000, or 1.6%, and \$7.5 million, or 5.5%, in comparison to the same periods in 2016, respectively. The increases were primarily driven by higher investment management and trust services income and mortgage banking income. Improvements in mortgage banking income were largely due to changes in the MSR valuation allowance. See further discussion under non-interest income in "Results of Operations."

Investment securities gains for the three and nine months ended September 30, 2017 were \$4.6 million and \$7.1 million, respectively, as compared to \$2,000 and \$1.0 million for the same periods in 2016, respectively.

Non-interest Expense - For the three and nine months ended September 30, 2017, non-interest expense increased \$12.3 million, or 10.3%, and \$25.2 million, or 7.0%, respectively, in comparison to the same periods of 2016. The increases were primarily driven by higher salaries and employee benefits, amortization of certain tax credit investments, other outside services and net occupancy expenses. Amortization of certain new tax credit investments was classified in non-interest expense rather than income tax expense in 2017. There was no impact on net income as a result of the different classifications of the amortization for these new tax credit investments as the increases in non-interest expense were offset by decreases in income tax expense.

Supplemental Reporting of Non-U.S. GAAP Based Financial Measures

This Quarterly Report on Form 10-Q contains supplemental financial information, as detailed below, which has been derived by methods other than U.S. GAAP. The Corporation has presented these non-U.S. 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-U.S. GAAP financial measures is consistent with how the Corporation evaluates its performance internally, and these non-U.S. 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-U.S. GAAP financial measures, in addition to U.S. GAAP measures, are also useful to investors to evaluate the Corporation's results. Investors should recognize that the Corporation's presentation of these non-U.S. GAAP financial measures might not be comparable to similarly-titled measures of other companies. These non-U.S. GAAP financial measures should not be considered a substitute for U.S. GAAP basis measures, and the Corporation strongly encourages a review of its consolidated financial statements in their entirety. Following are reconciliations of these non-U.S. GAAP financial measures to the most directly comparable U.S. GAAP measure as of and for the three and nine months ended September 30:

| | As of or for the Three months ended September 30 | | As of or for the Nine months ended September 30 | | |
|---|--|-------------|---|-------------|---|
| | 2017 | 2016 | 2017 | 2016 | |
| | (dollars in thousands) | | | | |
| Return on average tangible equity | | | | | |
| Net income - numerator | \$48,905 | \$41,468 | \$137,752 | \$119,475 | |
| Average common shareholders' equity | \$2,215,389 | \$2,120,596 | \$2,179,316 | \$2,089,882 | |
| Less: Average goodwill and intangible assets | (531,556) | (531,556) | (531,556) | (531,556) | |
| Average tangible shareholders' equity - denominator | \$1,683,833 | \$1,589,040 | \$1,647,760 | \$1,558,326 | |
| Return on average tangible equity, annualized | 11.52 | % 10.38 | % 11.18 | % 10.24 | % |
| Efficiency ratio | | | | | |
| Non-interest expense | \$132,157 | \$119,848 | \$387,127 | \$361,898 | |
| Less: Amortization of tax credit investments ⁽¹⁾ | (3,503) | — | (7,652) | — | |
| Numerator | \$128,654 | \$119,848 | \$379,475 | \$361,898 | |
| Net interest income (fully taxable equivalent) ⁽²⁾ | \$152,721 | \$135,784 | \$443,313 | \$403,700 | |
| Plus: Total Non-interest income | 51,974 | 48,149 | 151,018 | 137,423 | |
| Less: Investment securities gains, net | (4,597) | (2) | (7,139) | (1,025) | |
| Denominator | \$200,098 | \$183,931 | \$587,192 | \$540,098 | |
| Efficiency ratio | 64.3 | % 65.2 | % 64.6 | % 67.0 | % |

Amortization expense for tax credit investments that are considered to be qualified affordable housing investments under applicable accounting guidance is included in income taxes. Amortization expense for other tax credit investments that are not considered to be affordable housing investments is included in non-interest expense. If amortization expense for all tax credit investments were recorded in income taxes, the effective tax rate for the quarter ended September 30, 2017 would have been 24.8% vs 20.5%.

⁽²⁾ Presented on an FTE basis, using a 35% federal tax rate and statutory interest expense disallowances. See also the "Net Interest Income" section of Management's Discussion.

Quarter Ended September 30, 2017 compared to the Quarter Ended September 30, 2016

Net Interest Income

FTE net interest income increased \$16.9 million, to \$152.7 million, in the third quarter of 2017, from \$135.8 million in the third quarter of 2016. The increase was due to a \$1.3 billion, or 7.8%, increase in interest-earning assets and a 13 basis points, or 4.1%, increase in net interest margin, to 3.27%, for the third quarter of 2017 compared to 3.14% for the third quarter of 2016. The following table provides a comparative average balance sheet and net interest income analysis for those periods. Interest income and yields are presented on an FTE basis, using a 35% federal tax rate and statutory interest expense disallowances. The discussion following this table is based on these FTE amounts.

| | Three months ended September 30 | | | | | |
|---|---------------------------------|--------------|------------|-----------------|--------------|------------|
| | 2017 | | | 2016 | | |
| | 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⁾ | \$ 15,392,067 | \$ 159,454 | 4.12 % | \$ 14,212,250 | \$ 140,434 | 3.93 % |
| Taxable investment securities ⁽³⁾ | 2,115,931 | 11,423 | 2.16 | 2,110,084 | 10,872 | 2.06 |
| Tax-exempt investment securities ⁽³⁾ | 408,594 | 4,492 | 4.40 | 344,231 | 3,923 | 4.56 |
| Equity securities ⁽³⁾ | 8,709 | 143 | 6.52 | 14,209 | 196 | 5.50 |
| Total investment securities | 2,533,234 | 16,058 | 2.53 | 2,468,524 | 14,991 | 2.43 |
| Loans held for sale | 22,456 | 243 | 4.33 | 22,593 | 210 | 3.72 |
| Other interest-earning assets | 590,676 | 1,667 | 1.12 | 501,666 | 1,051 | 0.84 |
| Total interest-earning assets | 18,538,433 | 177,422 | 3.80 % | 17,205,033 | 156,686 | 3.63 % |
| Noninterest-earning assets: | | | | | | |
| Cash and due from banks | 101,643 | | | 101,927 | | |
| Premises and equipment | 220,129 | | | 227,906 | | |
| Other assets | 1,186,622 | | | 1,219,844 | | |
| Less: Allowance for loan losses | (174,101) | | | (163,074) | | |
| Total Assets | \$ 19,872,726 | | | \$ 18,591,636 | | |
| LIABILITIES AND EQUITY | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Demand deposits | \$ 3,943,118 | \$ 3,847 | 0.39 % | \$ 3,602,448 | \$ 1,706 | 0.19 % |
| Savings and money market deposits | 4,603,155 | 3,962 | 0.34 | 4,078,942 | 2,042 | 0.20 |
| Brokered deposits | 89,767 | 277 | 1.23 | — | — | — |
| Time deposits | 2,744,532 | 7,937 | 1.15 | 2,814,258 | 7,562 | 1.07 |
| Total interest-bearing deposits | 11,380,572 | 16,023 | 0.56 | 10,495,648 | 11,310 | 0.43 |
| Short-term borrowings | 402,341 | 578 | 0.57 | 426,369 | 254 | 0.23 |
| FHLB advances and other long-term debt | 1,038,062 | 8,100 | 3.11 | 965,228 | 9,338 | 3.86 |
| Total interest-bearing liabilities | 12,820,975 | 24,701 | 0.77 % | 11,887,245 | 20,902 | 0.70 % |
| Noninterest-bearing liabilities: | | | | | | |
| Demand deposits | 4,494,897 | | | 4,227,639 | | |
| Other | 341,465 | | | 356,156 | | |
| Total Liabilities | 17,657,337 | | | 16,471,040 | | |
| Shareholders' equity | 2,215,389 | | | 2,120,596 | | |
| Total Liabilities and Shareholders' Equity | \$ 19,872,726 | | | \$ 18,591,636 | | |
| Net interest income/net interest margin (FTE) | | 152,721 | 3.27 % | | 135,784 | 3.14 % |
| Tax equivalent adjustment | | (5,912) | | | (5,219) | |
| Net interest income | | \$ 146,809 | | | \$ 130,565 | |

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

The following table summarizes the changes in FTE interest income and interest expense resulting from changes in average balances (volume) and changes in rates for the three months ended September 30, 2017 in comparison to the three months ended September 30, 2016:

| | 2017 vs. 2016 | | |
|--|--------------------------------------|----------|----------|
| | Increase (Decrease) due to change in | | |
| | Volume | Rate | Net |
| | (in thousands) | | |
| Interest income on: | | | |
| Loans, net of unearned income | \$12,223 | \$6,797 | \$19,020 |
| Taxable investment securities | 30 | 521 | 551 |
| Tax-exempt investment securities | 714 | (145) | 569 |
| Equity securities | (86) | 33 | (53) |
| Loans held for sale | (1) | 34 | 33 |
| Other interest-earning assets | 212 | 404 | 616 |
| Total interest income | \$13,092 | \$7,644 | \$20,736 |
| Interest expense on: | | | |
| Demand deposits | \$177 | \$1,964 | \$2,141 |
| Savings and money market deposits | 293 | 1,627 | 1,920 |
| Brokered deposits | 277 | — | 277 |
| Time deposits | (186) | 561 | 375 |
| Short-term borrowings | (15) | 339 | 324 |
| FHLB advances and other long-term debt | 674 | (1,912) | (1,238) |
| Total interest expense | \$1,220 | \$2,579 | \$3,799 |

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

As summarized above, the increase in average interest-earning assets, primarily loans, since the third quarter of 2016 resulted in a \$13.1 million increase in FTE interest income. The 17 basis points increase in the yield on average interest-earning assets resulted in a \$7.6 million increase in FTE interest income. The yield on the loan portfolio increased 19 basis points, or 4.8%, from the third quarter of 2016, the result of federal funds rate increases that occurred in December 2016, March 2017 and June 2017, which primarily impacted variable rate loans and adjustable rate loans that repriced in the first nine months of 2017.

Interest expense increased \$3.8 million primarily due to the 20 and 14 basis points increases in the rate on average interest-bearing demand deposits and savings and money market deposits, as a result of the federal funds rate increases. These basis points increases contributed \$2.0 million and \$1.6 million to the increase in FTE interest expense, respectively. These increases were partially offset by a 75 basis points decrease in the rate on average FHLB advances and other long-term debt, which lowered FTE interest expense by \$1.2 million.

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

| | Three months ended September 30 | | | | Increase (Decrease) in | |
|---|---------------------------------|-------|-------------|-------|------------------------|-------|
| | 2017 | | 2016 | | Balance | % |
| | Balance | Yield | Balance | Yield | \$ | % |
| | (dollars in thousands) | | | | | |
| Real estate – commercial mortgage | \$6,208,630 | 4.07% | \$5,670,888 | 3.99% | \$537,742 | 9.5 % |
| Commercial – industrial, financial and agricultural | 4,257,075 | 4.08 | 4,066,275 | 3.76 | 190,800 | 4.7 |
| Real estate – residential mortgage | 1,841,559 | 3.83 | 1,503,209 | 3.76 | 338,350 | 22.5 |

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|-------------------------------|--------------|--------|--------------|--------|-------------|----------|
| Real estate – home equity | 1,569,898 | 4.48 | 1,640,913 | 4.08 | (71,015 |) (4.3) |
| Real estate – construction | 943,029 | 4.05 | 837,920 | 3.76 | 105,109 | 12.5 |
| Consumer | 318,546 | 4.94 | 281,517 | 5.31 | 37,029 | 13.2 |
| Leasing, other and overdrafts | 253,330 | 4.91 | 211,528 | 4.74 | 41,802 | 19.8 |
| Total | \$15,392,067 | 4.12 % | \$14,212,250 | 3.93 % | \$1,179,817 | 8.3 % |

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Average loans increased \$1.2 billion, or 8.3%, compared to the third quarter of 2016. The increase was driven largely by growth in the commercial mortgage and residential mortgage portfolios, as well as the commercial loan portfolio. The \$537.7 million, or 9.5%, increase in commercial mortgages occurred in both owner-occupied and investment property types and was realized across most geographic markets. The \$338.4 million, or 22.5%, increase in residential mortgages was also experienced 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 targeting specific customer segments, including loans to low- to moderate-income and minority borrowers and loans in low- to moderate-income and majority-minority geographies. The \$190.8 million, or 4.7%, increase in commercial loans was spread across a broad range of industries and concentrated in Pennsylvania.

Average total interest-bearing liabilities increased \$933.7 million, or 7.9%, compared to the third quarter of 2016. Interest expense increased \$3.8 million, or 18.2%, to \$24.7 million in the third quarter of 2017. Average deposits and average interest rates, by type, are summarized in the following table:

| | Three months ended September 30 | | | | Increase (Decrease) | |
|-----------------------------------|---------------------------------|--------|--------------|--------|---------------------|--------|
| | 2017 | | 2016 | | in Balance | |
| | Balance | Rate | Balance | Rate | \$ | % |
| | (dollars in thousands) | | | | | |
| Noninterest-bearing demand | \$4,494,897 | — % | \$4,227,639 | — % | \$267,258 | 6.3 % |
| Interest-bearing demand | 3,943,118 | 0.39 | 3,602,448 | 0.19 | 340,670 | 9.5 |
| Savings and money market accounts | 4,603,155 | 0.34 | 4,078,942 | 0.20 | 524,213 | 12.9 |
| Total demand and savings | 13,041,170 | 0.24 | 11,909,029 | 0.13 | 1,132,141 | 9.5 |
| Brokered deposits | 89,767 | 1.23 | — | — | 89,767 | N/M |
| Time deposits | 2,744,532 | 1.15 | 2,814,258 | 1.07 | (69,726) | (2.5) |
| Total deposits | \$15,875,469 | 0.40 % | \$14,723,287 | 0.31 % | \$1,152,182 | 7.8 % |
| N/M - Not meaningful | | | | | | |

The \$1.1 billion, or 9.5%, increase in total demand and savings accounts was primarily due to a \$623.2 million, or 11.3%, increase in personal account balances, a \$276.4 million, or 6.4%, increase in business account balances and a \$221.2 million, or 10.7%, increase in 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 \$250 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 during the third quarter of 2017 was \$89.8 million and is shown as "brokered deposits" in the above table. This source of funding is considered to be both geographically diverse and relatively stable, with balances in the omnibus deposit accounts bearing interest at a rate based on the federal funds rate.

The average cost of total deposits increased 9 basis points to 0.40% in the third quarter of 2017, compared to 0.31% in the third quarter of 2016.

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

| | Three months ended September 30 | | | | Increase (Decrease) in Balance | |
|--|---------------------------------|-------|-------------|-------|--------------------------------------|--------|
| | 2017 | | 2016 | | \$ | % |
| | Balance | Rate | Balance | Rate | | |
| | (dollars in thousands) | | | | | |
| Short-term borrowings: | | | | | | |
| Customer repurchase agreements and short-term promissory notes | \$256,562 | 0.19% | \$257,659 | 0.09% | \$(1,097) | (0.4)% |
| Federal funds purchased | 90,453 | 1.21 | 148,546 | 0.47 | (58,093) | (39.1) |
| Short-term FHLB advances ⁽¹⁾ | 55,326 | 1.24 | 20,163 | 0.41 | 35,163 | 174.4 |
| Total short-term borrowings | 402,341 | 0.57 | 426,368 | 0.23 | (24,027) | (5.6) |
| Long-term debt: | | | | | | |
| FHLB advances | 652,160 | 2.30 | 603,285 | 3.17 | 48,875 | 8.1 |
| Other long-term debt | 385,902 | 4.48 | 361,943 | 5.01 | 23,959 | 6.6 |
| Total long-term debt | 1,038,062 | 3.11 | 965,228 | 3.86 | 72,834 | 7.5 |
| Total borrowings | \$1,440,403 | 2.40% | \$1,391,596 | 2.75% | \$48,807 | 3.5% |

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

Average total short-term borrowings decreased \$24.0 million, or 5.6%, as a portion of these borrowings were repaid with funds provided by the strong growth in deposits during the third quarter of 2017.

The increase of \$48.9 million, or 8.1%, in average long-term FHLB advances provided additional funding to support loan growth. Average long-term debt increased \$72.8 million, or 7.5%, due mainly to the issuance of \$125 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 75 basis point, or 19.4%, decrease in the average rate on long-term debt was primarily a result of \$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 \$5.1 million for the third quarter of 2017, an increase of \$934,000 from the third quarter of 2016, driven mainly by loan growth and the impact of normal changes in the risk characteristics of the loan portfolio.

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 the "Financial Condition" section of Management's Discussion under the heading "Provision and Allowance for Credit Losses" for details related to the Corporation's provision and allowance for credit losses.

Non-Interest Income

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

| | Three months ended September 30 | | Increase (Decrease) | |
|---|---------------------------------------|----------|---------------------|---------|
| | 2017 | 2016 | \$ | % |
| | (dollars in thousands) | | | |
| Service charges on deposit accounts: | | | | |
| Overdraft fees | \$5,844 | \$5,770 | \$ 74 | 1.3 % |
| Cash management fees | 3,624 | 3,605 | 19 | 0.5 % |
| Other | 3,554 | 3,703 | (149) | (4.0)% |
| Total service charges on deposit accounts | 13,022 | 13,078 | (56) | (0.4)% |
| Other service charges and fees: | | | | |
| Merchant fees | 4,398 | 4,220 | 178 | 4.2 |
| Debit card income | 2,830 | 2,718 | 112 | 4.1 |
| Commercial loan interest rate swap fees | 1,954 | 4,359 | (2,405) | (55.2) |
| Letter of credit fees | 1,056 | 1,078 | (22) | (2.0) |
| Other | 2,013 | 2,032 | (19) | (0.9) |
| Total other service charges and fees | 12,251 | 14,407 | (2,156) | (15.0) |
| Investment management and trust services | 12,157 | 11,425 | 732 | 6.4 |
| Mortgage banking income: | | | | |
| Gains on sales of mortgage loans | 3,560 | 4,857 | (1,297) | (26.7) |
| Mortgage servicing income | 1,245 | (328) | 1,573 | N/M |
| Total mortgage banking income | 4,805 | 4,529 | 276 | 6.1 |
| Credit card income | 2,829 | 2,668 | 161 | 6.0 |
| Other income | 2,313 | 2,040 | 273 | 13.4 |
| Total, excluding investment securities gains, net | 47,377 | 48,147 | (770) | (1.6) |
| Investment securities gains, net | 4,597 | 2 | 4,595 | N/M |
| Total | \$51,974 | \$48,149 | \$ 3,825 | 7.9 % |

N/M - Not meaningful

Excluding investment securities gains, non-interest income decreased \$770,000, or 1.6%, in the third quarter of 2017 as compared to the same period in 2016. Other service charges and fees decreased \$2.2 million, or 15.0%, primarily due to a \$2.4 million decrease in commercial loan interest rate swap fees, mainly as a result of lower commercial loan originations during the third quarter of 2017.

Investment management and trust services income increased \$732,000, or 6.4%, in the third quarter of 2017 as compared to the same period in 2016, with growth in both trust commissions and brokerage income, due to overall market performance and an increase in assets under management.

Gains on sales of mortgage loans decreased \$1.3 million, or 26.7%, in the third quarter of 2017 compared to the same period in 2016, as both volumes and pricing spreads decreased. Mortgage servicing income increased \$1.6 million as the third quarter of 2016 included an MSR impairment charge of \$1.3 million. Excluding this charge, mortgage servicing income increased \$293,000, or 30.8%. For more information, see Note 6, "Mortgage Servicing Rights," in the Notes to Consolidated Financial Statements for additional details.

Investment securities gains increased \$4.6 million from the third quarter of 2016. The increase resulted from sales of financial institution common stocks. See Note 4, "Investment Securities," in the Notes to Consolidated Financial Statements for additional details.

Non-Interest Expense

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

| | Three months ended | | Increase | |
|--|------------------------|-----------|----------|--------|
| | September 30 | | \$ | % |
| | 2017 | 2016 | | |
| | (dollars in thousands) | | | |
| Salaries and employee benefits | \$72,894 | \$70,696 | \$2,198 | 3.1 % |
| Net occupancy expense | 12,180 | 11,782 | 398 | 3.4 |
| Data processing and software | 10,301 | 8,727 | 1,574 | 18.0 |
| Other outside services | 6,582 | 5,783 | 799 | 13.8 |
| Amortization of tax credit investments | 3,503 | — | 3,503 | N/M |
| Professional fees | 3,388 | 2,535 | 853 | 33.6 |
| Equipment expense | 3,298 | 3,137 | 161 | 5.1 |
| FDIC insurance expense | 3,007 | 1,791 | 1,216 | 67.9 |
| Marketing | 2,089 | 1,774 | 315 | 17.8 |
| Other | 14,915 | 13,623 | 1,292 | 9.5 |
| Total | \$132,157 | \$119,848 | \$12,309 | 10.3 % |

N/M - Not meaningful

The increase in salaries and employee benefits expense was driven entirely by salaries, reflecting annual merit increases and an increase in staffing levels. Average full-time equivalent employees increased 2.2%, to 3,582 in 2017, as compared to 3,504 in 2016.

Data processing and software expense increased \$1.6 million, or 18.0%, reflecting higher transaction volumes and new processing platforms.

Other outside services increased \$799,000, or 13.8%, largely due to consulting services related to pre-bank consolidation efforts and technology initiatives.

In 2017, amortization of certain new tax credit investments was classified in non-interest expense, rather than income tax expense, as further discussed under income taxes below.

The \$853,000, or 33.6%, increase in professional fees was driven by higher legal expenses. FDIC insurance expense increased \$1.2 million, or 67.9%, reflecting the Corporation's largest banking subsidiary exceeding \$10 billion in assets and becoming subject to the 'large bank' premium assessments and balance sheet growth. Marketing expense increased \$315,000, or 17.8%, compared to the third quarter of 2016, due to an increase in the number of marketing promotions.

Other expenses increased \$1.3 million, or 9.5%, due to higher state taxes resulting from legislated increases in the Pennsylvania bank shares tax rate, and certain sales tax liabilities.

Income Taxes

Income tax expense for the third quarter of 2017 was \$12.6 million, a \$611,000, or 4.6%, decrease from \$13.3 million for the third quarter of 2016.

The Corporation's effective tax rate was 20.5% in the third quarter of 2017, as compared to 24.2% in the third quarter of 2016. The effective tax rate is generally lower than the federal statutory rate of 35% due to tax-exempt interest income earned on loans, investments in tax-free municipal securities, credits earned from community development investments in partnerships that generate tax credits under various federal programs and excess tax benefits realized on stock-based compensation. In 2017, amortization of certain new tax credit investments was included in non-interest expense, rather than as a component of income tax expense. If the amortization had been included as a component of

income tax expense, the effective tax rate for the third quarter of 2017 would have been 24.8%.

Nine Months Ended September 30, 2017 compared to the Nine Months Ended September 30, 2016

Net Interest Income

FTE net interest income increased \$39.6 million, to \$443.3 million, in the first nine months of 2017, from \$403.7 million in the same period of 2016. The increase was due to a \$1.2 billion, or 7.1%, increase in interest-earning assets and an 8 basis points, or 2.5%, increase in net interest margin, to 3.27%, for the first nine months of 2017 compared to 3.19% for the same period in 2016. The following table provides a comparative average balance sheet and net interest income analysis for those periods. Interest income and yields are presented on an FTE basis, using a 35% federal tax rate and statutory interest expense disallowances. The discussion following this table is based on these FTE amounts.

| | Nine months ended September 30 | | | | | |
|---|--------------------------------|--------------|------------|-----------------|--------------|------------|
| | 2017 | | | 2016 | | |
| | 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⁾ | \$15,127,569 | \$458,753 | 4.05% | \$14,011,301 | \$416,646 | 3.97% |
| Taxable investment securities ⁽³⁾ | 2,117,127 | 34,811 | 2.19 | 2,139,378 | 34,034 | 2.12 |
| Tax-exempt investment securities ⁽³⁾ | 405,728 | 13,268 | 4.36 | 306,298 | 10,631 | 4.63 |
| Equity securities ⁽³⁾ | 10,391 | 467 | 6.01 | 14,272 | 599 | 5.60 |
| Total investment securities | 2,533,246 | 48,546 | 2.56 | 2,459,948 | 45,264 | 2.45 |
| Loans held for sale | 19,378 | 631 | 4.34 | 18,114 | 529 | 3.90 |
| Other interest-earning assets | 410,250 | 3,311 | 1.08 | 406,163 | 2,813 | 0.92 |
| Total interest-earning assets | 18,090,443 | 511,241 | 3.78% | 16,895,526 | 465,252 | 3.68% |
| Noninterest-earning assets: | | | | | | |
| Cash and due from banks | 107,029 | | | 100,417 | | |
| Premises and equipment | 218,700 | | | 227,237 | | |
| Other assets | 1,170,466 | | | 1,182,260 | | |
| Less: Allowance for loan losses | (172,145) | | | (164,999) | | |
| Total Assets | \$19,414,493 | | | \$18,240,441 | | |
| LIABILITIES AND EQUITY | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Demand deposits | \$3,762,439 | \$8,865 | 0.32% | \$3,498,659 | \$4,727 | 0.18% |
| Savings deposits | 4,372,453 | 8,883 | 0.27 | 4,000,871 | 5,732 | 0.19 |
| Brokered deposits | 30,251 | 277 | 1.23 | — | — | — |
| Time deposits | 2,726,693 | 22,684 | 1.11 | 2,842,011 | 22,465 | 1.06 |
| Total interest-bearing deposits | 10,891,836 | 40,709 | 0.50 | 10,341,541 | 32,924 | 0.43 |
| Short-term borrowings | 581,511 | 2,407 | 0.55 | 425,151 | 739 | 0.23 |
| FHLB advances and other long-term debt | 1,033,159 | 24,812 | 3.21 | 962,997 | 27,889 | 3.86 |
| Total interest-bearing liabilities | 12,506,506 | 67,928 | 0.73% | 11,729,689 | 61,552 | 0.70% |
| Noninterest-bearing liabilities: | | | | | | |
| Demand deposits | 4,395,421 | | | 4,091,555 | | |
| Other | 333,250 | | | 329,315 | | |
| Total Liabilities | 17,235,177 | | | 16,150,559 | | |
| Shareholders' equity | 2,179,316 | | | 2,089,882 | | |
| Total Liabilities and Shareholders' Equity | \$19,414,493 | | | \$18,240,441 | | |
| Net interest income/net interest margin (FTE) | | 443,313 | 3.27% | | 403,700 | 3.19% |
| Tax equivalent adjustment | | (17,362) | | | (15,165) | |
| Net interest income | | \$425,951 | | | \$388,535 | |

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

The following table summarizes the changes in FTE interest income and interest expense resulting from changes in average balances (volume) and changes in rates for the nine months ended September 30, 2017 in comparison to the same period of 2016:

| | 2017 vs. 2016 | | |
|--|--------------------------------------|----------|----------|
| | Increase (Decrease) due to change in | | |
| | Volume | Rate | Net |
| | (in thousands) | | |
| Interest income on: | | | |
| Loans, net of unearned income | \$33,471 | \$8,636 | \$42,107 |
| Taxable investment securities | (355) | 1,132 | 777 |
| Tax-exempt investment securities | 3,277 | (640) | 2,637 |
| Equity securities | (172) | 40 | (132) |
| Loans held for sale | 39 | 63 | 102 |
| Other interest-earning assets | 28 | 470 | 498 |
| Total interest income | \$36,288 | \$9,701 | \$45,989 |
| Interest expense on: | | | |
| Demand deposits | \$381 | \$3,757 | \$4,138 |
| Savings and money market deposits | 573 | 2,578 | 3,151 |
| Brokered deposits | 277 | — | 277 |
| Time deposits | (939) | 1,158 | 219 |
| Short-term borrowings | 349 | 1,319 | 1,668 |
| FHLB advances and other long-term debt | 1,916 | (4,993) | (3,077) |
| Total interest expense | \$2,557 | \$3,819 | \$6,376 |

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

As summarized above, the increase in average interest-earning assets, primarily loans, in comparison to the first nine months of 2016, resulted in a \$36.3 million increase in FTE interest income. The 10 basis points increase in the yield on average interest-earning assets resulted in a \$9.7 million increase in FTE interest income. The yield on the loan portfolio increased 8 basis points, or 2.0%, from the same period of 2016, the result of federal funds rate increases that occurred in December 2016, March 2017 and June 2017, which impacted variable rate loans and adjustable rate loans that repriced in the first nine months of 2017.

Interest expense increased \$6.4 million primarily due to the 14 and 8 basis points increases in the rate on average interest-bearing demand deposits and savings and money market deposits, as a result of the federal funds rate increases. These basis points increases contributed \$3.8 million and \$2.6 million to the increase in FTE interest expense, respectively. In addition, a 32 basis points increase in short-term borrowings contributed \$1.3 million to the increase in FTE interest expense. These increases were partially offset by a 65 basis points decrease in the rate on average FHLB advances and other long-term debt, which lowered FTE interest expense by \$5.0 million.

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

| | Nine months ended September 30 | | | | Increase (Decrease) in Balance | |
|---|--------------------------------|--------|-------------|--------|--------------------------------|--------|
| | 2017 | 2016 | 2017 | 2016 | \$ | % |
| | Balance | Yield | Balance | Yield | | |
| | (dollars in thousands) | | | | | |
| Real estate – commercial mortgage | \$6,137,824 | 4.02 % | \$5,572,356 | 4.01 % | \$565,468 | 10.1 % |
| Commercial – industrial, financial and agricultural | 4,227,918 | 3.99 | 4,080,638 | 3.79 | 147,280 | 3.6 |
| Real estate – residential mortgage | 1,729,799 | 3.79 | 1,428,430 | 3.77 | 301,369 | 21.1 |

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| | | | | | | |
|-------------------------------|--------------|--------|--------------|--------|-------------|----------|
| Real estate – home equity | 1,590,117 | 4.33 | 1,656,969 | 4.09 | (66,852 |) (4.0) |
| Real estate – construction | 894,146 | 4.00 | 817,014 | 3.80 | 77,132 | 9.4 |
| Consumer | 301,414 | 5.07 | 272,402 | 5.40 | 29,012 | 10.7 |
| Leasing, other and overdrafts | 246,351 | 5.00 | 183,492 | 6.01 | 62,859 | 34.3 |
| Total | \$15,127,569 | 4.05 % | \$14,011,301 | 3.97 % | \$1,116,268 | 8.0 % |

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Average loans increased \$1.1 billion, or 8.0%, compared to the first nine months of 2016. The increase was driven largely by growth in the commercial mortgage and residential mortgage portfolios, as well as the commercial loan, construction and leasing portfolios. The \$565.5 million, or 10.1%, increase in commercial mortgages occurred in both owner-occupied and investment property types and was realized in all geographic markets, but predominantly in Pennsylvania, Maryland and Delaware. The \$301.4 million, or 21.1%, increase in residential mortgages was also experienced 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, including loans to low- to moderate-income and minority borrowers and loans in low- to moderate-income and majority-minority geographies. The \$147.3 million, or 3.6%, increase in commercial loans was spread across a broad range of industries and concentrated in Pennsylvania.

Average total interest-bearing liabilities for the first nine months of 2017 increased \$776.8 million, or 6.6%, compared to the same period of 2016. Interest expense increased \$6.4 million, or 10.4%, to \$67.9 million in the first nine months of 2017. Average deposits and average interest rates, by type, are summarized in the following table:

| | Nine months ended September 30 | | | | Increase (Decrease) in Balance | |
|----------------------------|--------------------------------|-------|--------------|-------|--------------------------------------|--------|
| | 2017 | | 2016 | | \$ | % |
| | Balance | Rate | Balance | Rate | | |
| | (dollars in thousands) | | | | | |
| Noninterest-bearing demand | \$4,395,421 | — % | \$4,091,555 | — % | \$303,866 | 7.4 % |
| Interest-bearing demand | 3,762,439 | 0.32 | 3,498,659 | 0.18 | 263,780 | 7.5 |
| Savings | 4,372,453 | 0.27 | 4,000,871 | 0.19 | 371,582 | 9.3 |
| Total demand and savings | 12,530,313 | 0.19 | 11,591,085 | 0.12 | 939,228 | 8.1 |
| Brokered deposits | 30,251 | 1.23 | — | — | 30,251 | N/M |
| Time deposits | 2,726,693 | 1.11 | 2,842,011 | 1.06 | (115,318) | (4.1) |
| Total deposits | \$15,287,257 | 0.36% | \$14,433,096 | 0.30% | \$854,161 | 5.9 % |

N/M - Not meaningful

The \$939.2 million, or 8.1%, increase in total demand and savings accounts was primarily due to a \$527.5 million, or 9.8%, increase in personal account balances, a \$286.5 million, or 6.8%, increase in business account balances and an \$113.7 million, or 5.8%, increase in 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 \$250 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 during the nine months ended September 30, 2017 was \$30.3 million and is shown as "brokered deposits" in the above table. This source of funding is considered to be both geographically diverse and relatively stable, with balances in the omnibus deposit accounts bearing interest at a rate based on the federal funds rate.

The average cost of total deposits increased 6 basis points to 0.36% in the first nine months of 2017, compared to 0.30% in the same period in 2016.

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

| | Nine months ended September 30 | | | | Increase | |
|---|--------------------------------|--------|-------------|--------|------------|--------|
| | 2017 | | 2016 | | in Balance | |
| | Balance | Rate | Balance | Rate | \$ | % |
| (dollars in thousands) | | | | | | |
| Short-term borrowings: | | | | | | |
| Customer repurchase agreements | \$191,740 | 0.11 % | \$179,892 | 0.11 % | \$11,848 | 6.6 % |
| Customer short-term promissory notes | 79,230 | 0.13 | 73,859 | 0.04 | 5,371 | 7.3 |
| Total short-term customer funding | 270,970 | 0.12 | 253,751 | 0.09 | 17,219 | 6.8 |
| Federal funds purchased | 212,885 | 0.92 | 156,812 | 0.44 | 56,073 | 35.8 |
| Short-term FHLB advances ⁽¹⁾ | 97,656 | 0.94 | 14,588 | 0.43 | 83,068 | N/M |
| Total short-term borrowings | 581,511 | 0.55 | 425,151 | 0.23 | 156,360 | 36.8 |
| Long-term debt: | | | | | | |
| FHLB advances | 636,898 | 2.31 | 601,120 | 3.18 | 35,778 | 6.0 |
| Other long-term debt | 396,261 | 4.65 | 361,877 | 5.00 | 34,384 | 9.5 |
| Total long-term debt | 1,033,159 | 3.21 | 962,997 | 3.86 | 70,162 | 7.3 |
| Total borrowings | \$1,614,670 | 2.25 % | \$1,388,148 | 2.75 % | \$226,522 | 16.3 % |

N/M - Not meaningful

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

Average total short-term borrowings increased \$156.4 million, or 36.8%, as a result of loan growth out-pacing the increase in deposits. Interest expense on average short-term borrowings increased by \$1.7 million, mainly driven by the 32 basis points increase in the rate, contributing \$1.3 million to interest expense.

The increase of \$35.8 million, or 6.0%, in average long-term FHLB advances provided additional funding to support loan growth. Average long-term debt increased \$70.2 million, or 7.3%, primarily as a result of the \$125 million of senior notes issued 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 16.8%, decrease in the average rate on long-term debt was primarily a result of \$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 \$16.6 million for the first nine months of 2017, an increase of \$8.4 million from the same period of 2016, driven mainly by loan growth and the impact of normal changes in the risk characteristics of the loan portfolio.

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 the "Financial Condition" section of Management's Discussion under the heading "Provision and Allowance for Credit Losses" for details related to the Corporation's allowance and provision for credit losses.

Non-Interest Income

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

| | Nine months ended | | Increase | |
|---|-------------------|--------------|------------|--------|
| | September 30 | September 30 | (Decrease) | |
| | 2017 | 2016 | \$ | % |
| (dollars in thousands) | | | | |
| Service charges on deposit accounts: | | | | |
| Overdraft fees | \$16,961 | \$16,426 | \$535 | 3.3 % |
| Cash management fees | 10,775 | 10,651 | 124 | 1.2 |
| Other | 10,600 | 11,455 | (855) | (7.5) |
| Total service charges on deposit accounts | 38,336 | 38,532 | (196) | (0.5) |
| Other service charges and fees: | | | | |
| Merchant fees | 12,536 | 12,155 | 381 | 3.1 % |
| Commercial loan interest rate swap fees | 8,780 | 8,552 | 228 | 2.7 |
| Debit card income | 8,379 | 7,948 | 431 | 5.4 |
| Letter of credit fees | 3,366 | 3,385 | (19) | (0.6) |
| Other | 5,969 | 6,100 | (131) | (2.1) |
| Total other service charges and fees | 39,030 | 38,140 | 890 | 2.3 |
| Investment management and trust services | 36,097 | 33,660 | 2,437 | 7.2 |
| Mortgage banking income: | | | | |
| Gains on sales of mortgage loans | 10,122 | 11,967 | (1,845) | (15.4) |
| Mortgage servicing income | 5,420 | 489 | 4,931 | N/M |
| Total mortgage banking income | 15,542 | 12,456 | 3,086 | 24.8 |
| Credit card income | 8,143 | 7,688 | 455 | 5.9 |
| Other income | 6,731 | 5,922 | 809 | 13.7 |
| Total, excluding investment securities gains, net | 143,879 | 136,398 | 7,481 | 5.5 |
| Investment securities gains, net | 7,139 | 1,025 | 6,114 | N/M |
| Total | \$151,018 | \$137,423 | \$13,595 | 9.9 % |

N/M - Not meaningful

Excluding investment securities gains, non-interest income increased \$7.5 million, or 5.5%, for the first nine months of 2017, as compared to the same period in 2016. Other service charges and fees increased \$890,000, or 2.3%, mainly due to increases in merchant fees, debit card income and commercial loan interest rate swap fees.

The \$534,000, or 3.3%, increase in overdraft fee income during the nine months ended September 30, 2017, in comparison to the same period during 2016, consisted of a \$358,000 increase in fees assessed on personal accounts and a \$176,000 increase in fees assessed on commercial accounts, due to higher transaction volumes. Other service charges on deposit accounts decreased \$854,000, or 7.5%, resulting from changes in customer behavior and the loss of a significant processing customer.

Investment management and trust services income increased \$2.4 million, or 7.2%, with growth in both trust and brokerage income, due to overall market performance and an increase in assets under management.

Gains on sales of mortgage loans decreased \$1.8 million, or 15.4%, compared to the same period in 2016, as both volumes and pricing spreads decreased. Mortgage servicing income increased \$4.9 million compared to the same period in 2016 due to a \$1.3 million reduction to the MSR's valuation allowance in 2017, which was originally established in 2016 through impairment charges of \$3.0 million. Excluding the impact of the MSR valuation allowance adjustments, mortgage servicing income increased \$639,000, or 18.3%. For more information, see Note 6,

"Mortgage Servicing Rights," in the Notes to Consolidated Financial Statements for additional details.

Gains on sales of investment securities increased \$6.1 million compared to the first nine months of 2016. The increase resulted from sales of financial institution common stocks. See Note 4, "Investment Securities," in the Notes to Consolidated Financial Statements for additional details.

Non-Interest Expense

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

| | Nine months ended | | Increase | | |
|--|------------------------|-----------|------------|-------|---|
| | September 30 | | (Decrease) | | |
| | 2017 | 2016 | \$ | % | |
| | (dollars in thousands) | | | | |
| Salaries and employee benefits | \$216,626 | \$210,097 | \$6,529 | 3.1 | % |
| Net occupancy expense | 37,159 | 35,813 | 1,346 | 3.8 | |
| Data processing and software | 28,334 | 27,477 | 857 | 3.1 | |
| Other outside services | 19,836 | 17,347 | 2,489 | 14.3 | |
| Equipment expense | 9,691 | 9,380 | 311 | 3.3 | |
| Professional fees | 9,056 | 8,221 | 835 | 10.2 | |
| Amortization of tax credit investments | 7,652 | — | 7,652 | 100.0 | |
| FDIC insurance expense | 7,431 | 7,700 | (269) | (3.5) |) |
| Marketing | 6,309 | 5,314 | 995 | 18.7 | |
| Other | 45,033 | 40,549 | 4,484 | 11.1 | |
| Total | \$387,127 | \$361,898 | \$25,229 | 7.0 | % |

The \$6.5 million, or 3.1%, increase in salaries and employee benefits during the nine months ended September 30, 2017, in comparison to the same period during 2016, primarily resulted from a \$7.7 million, or 4.4%, increase in salaries, resulting from annual merit increases and an increase in staffing levels. Average full-time equivalent employees increased 1.9%, to 3,559, in 2017, as compared to 3,492 in 2016.

Other outside services increased \$2.5 million, or 14.3%, largely due to consulting services related to pre-bank consolidation efforts and technology initiatives.

As previously mentioned, in 2017 amortization of certain new tax credit investments was classified in non-interest expense, rather than income taxes.

Marketing expense increased \$995,000, or 18.7%, compared to the first nine months of 2016, due to an increase in the number of marketing promotions. In 2017, many of these promotions were focused on deposit generation.

Other expenses increased \$4.5 million, or 11.1%, due to higher state taxes resulting from legislated increases in the Pennsylvania bank shares tax rate, certain sales tax liabilities, and higher operating risk loss expense.

Income Taxes

Income tax expense for the first nine months of 2017 was \$35.5 million, an \$888,000, or 2.4%, decrease from \$36.4 million in 2016. The Corporation's effective tax rate was 20.5% in the first nine months of 2017, as compared to 23.4% in the same period of 2016. The effective tax rate is generally lower than the federal statutory rate of 35% due to tax-exempt interest income earned on loans, investments in tax-free municipal securities, credits earned from investments in partnerships that generate tax credits under various federal programs and excess tax benefits realized on stock-based compensation. In 2017, amortization of certain new tax credit investments was recorded in non-interest expense, rather than as a component of income tax expense. If the amortization had been included as a component of income tax expense, the effective tax rate for the first nine months of 2017 would have been 23.9%.

FINANCIAL CONDITION

The table below presents condensed consolidated ending balance sheets.

| | September 30, 2017 | December 31, 2016 | Increase (Decrease) | |
|---|-----------------------|----------------------|---------------------|-------------|
| | | | \$ | % |
| (dollars in thousands) | | | | |
| Assets | | | | |
| Cash and due from banks | \$99,803 | \$118,763 | \$(18,960) | (16.0)% |
| Other interest-earning assets | 645,796 | 291,252 | 354,544 | 121.7 |
| Loans held for sale | 23,049 | 28,697 | (5,648) | (19.7) |
| Investment securities | 2,561,516 | 2,559,227 | 2,289 | 0.1 |
| Loans, net of allowance | 15,314,654 | 14,530,593 | 784,061 | 5.4 |
| Premises and equipment | 221,551 | 217,806 | 3,745 | 1.7 |
| Goodwill and intangible assets | 531,556 | 531,556 | — | — |
| Other assets | 664,935 | 666,353 | (1,418) | (0.2) |
| Total Assets | \$20,062,860 | \$18,944,247 | \$1,118,613 | 5.9% |
| Liabilities and Shareholders' Equity | | | | |
| Deposits | \$16,141,780 | \$15,012,864 | \$1,128,916 | 7.5% |
| Short-term borrowings | 298,751 | 541,317 | (242,566) | (44.8) |
| Long-term debt | 1,038,159 | 929,403 | 108,756 | 11.7 |
| Other liabilities | 358,384 | 339,548 | 18,836 | 5.5 |
| Total Liabilities | 17,837,074 | 16,823,132 | 1,013,942 | 6.0 |
| Total Shareholders' Equity | 2,225,786 | 2,121,115 | 104,671 | 4.9 |
| Total Liabilities and Shareholders' Equity | \$20,062,860 | \$18,944,247 | \$1,118,613 | 5.9% |

Other Interest-earning Assets

Other interest-earning assets increased \$354.5 million, or 121.7%, during the first nine months of 2017 as a result of higher balances on deposit with the Federal Reserve Bank, due to deposit growth in excess of loan growth during the period driven mainly by an increase in municipal deposits.

Investment Securities

The following table presents the carrying amount of investment securities:

| | September 30, 2017 | December 31, 2016 | Increase (Decrease) | |
|---|-----------------------|----------------------|------------------------|------------|
| | | | \$ | % |
| (dollars in thousands) | | | | |
| U.S. Government sponsored agency securities | \$6,015 | \$134 | \$5,881 | N/M |
| State and municipal securities | 413,913 | 391,641 | 22,272 | 5.7 |
| Corporate debt securities | 92,977 | 109,409 | (16,432) | (15.0) |
| Collateralized mortgage obligations | 593,678 | 593,860 | (182) | — |
| Residential mortgage-backed securities | 1,182,086 | 1,317,838 | (135,752) | (10.3) |
| Commercial mortgage-backed securities | 161,632 | 24,563 | 137,069 | N/M |
| Auction rate securities | 98,156 | 97,256 | 900 | 0.9 |
| Total debt securities | 2,548,457 | 2,534,701 | 13,756 | 0.5 |
| Equity securities | 13,059 | 24,526 | (11,467) | (46.8) |

| | | | | | |
|----------------------|-------------|-------------|---------|-----|---|
| Total | \$2,561,516 | \$2,559,227 | \$2,289 | 0.1 | % |
| N/M - Not meaningful | | | | | |

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Commercial mortgage-backed securities increased \$137.1 million, while residential mortgage-backed securities decreased \$135.8 million, or 10.3%, as residential mortgage backed securities cash flows were reinvested in commercial mortgage-backed securities to diversify the portfolio into securities with a shorter average life.

Loans, net of Unearned Income

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

| | September 30, 2017 | December 31, 2016 | Increase (Decrease) \$ | % |
|---|------------------------|-------------------|------------------------------|--------|
| | (dollars in thousands) | | | |
| Real estate – commercial mortgage | \$6,275,140 | \$6,018,582 | \$256,558 | 4.3 % |
| Commercial – industrial, financial and agricultural | 4,223,075 | 4,087,486 | 135,589 | 3.3 |
| Real estate – residential mortgage | 1,887,907 | 1,601,994 | 285,913 | 17.8 |
| Real estate – home equity | 1,567,473 | 1,625,115 | (57,642) | (3.5) |
| Real estate – construction | 973,108 | 843,649 | 129,459 | 15.3 |
| Consumer | 302,448 | 291,470 | 10,978 | 3.8 |
| Leasing, other and overdrafts | 257,748 | 230,976 | 26,772 | 11.6 |
| Loans, net of unearned income | \$15,486,899 | \$14,699,272 | \$787,627 | 5.4 % |

Loans, net of unearned income, increased \$787.6 million, or 5.4%, in comparison to December 31, 2016. In general, this growth resulted from improved business activity and customer sentiment during the first half of 2017, which was tempered somewhat in the third quarter of 2017. Increases were realized mainly in Pennsylvania, Maryland and Virginia.

Residential mortgage loans increased \$285.9 million, or 17.8%, compared to December 31, 2016, with the growth occurring primarily in Maryland (\$110.1 million, or 37.2%), Virginia (\$97.0 million, or 31.4%) and Pennsylvania (\$52.4 million, or 7.7%).

Commercial mortgage loans increased \$256.6 million, or 4.3%, in comparison to December 31, 2016, with the growth occurring largely in Pennsylvania (\$122.2 million, or 3.9%), Maryland (\$65.8 million, or 10.6%) and Virginia (\$30.0 million, or 6.0%).

Commercial loans increased \$135.6 million, or 3.3%, in comparison to December 31, 2016, with the growth occurring primarily in Pennsylvania (\$140.7 million, or 4.7%) and New Jersey (\$15.6 million, or 3.0%). Construction loans increased \$129.5 million, or 15.3%, in comparison to December 31, 2016, with the growth occurring primarily in Maryland (\$48.4 million, or 52.0%), New Jersey (\$24.9 million, or 16.7%), Pennsylvania (\$23.6 million, or 4.8%), and Delaware (\$22.6 million, or 42.6%). Leasing, other and overdrafts increased compared to December 31, 2016 as a result of a \$28.3 million increase in the leasing portfolio.

Construction loans include loans to commercial borrowers secured by commercial real estate, loans to commercial borrowers secured by residential real estate, and other construction loans, which represent loans to individuals secured by residential real estate. The following table presents outstanding construction loans and their delinquency rates by these class segments:

| September 30, 2017 | | | December 31, 2016 | | |
|------------------------|----------------------|------------|-------------------|----------------------|------------|
| Balance | Delinquency Rate (1) | % of Total | Balance | Delinquency Rate (1) | % of Total |
| (dollars in thousands) | | | | | |

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| | | | | | | | | | | |
|----------------------------------|-----------|-----|---|-------|---|-----------|-----|---|-------|---|
| Commercial | \$751,398 | 0.1 | % | 77.3 | % | \$644,490 | 0.2 | % | 76.4 | % |
| Commercial - residential | 156,127 | 8.1 | | 16.0 | | 142,189 | 6.0 | | 16.9 | |
| Other | 65,583 | 2.2 | | 6.7 | | 56,970 | 1.9 | | 6.7 | |
| Total Real estate - construction | \$973,108 | 1.5 | % | 100.0 | % | \$843,649 | 1.3 | % | 100.0 | % |

(1) Represents all accruing loans 30 days or more past due and non-accrual loans as a percentage of total loans in each class segment.

The Corporation does not have a significant concentration of credit risk with any single borrower, industry or geographical location. Approximately \$7.2 billion, or 46.8%, of the loan portfolio was in commercial mortgage and construction loans as of September 30, 2017. The Corporation's maximum total lending commitment to an individual borrowing relationship was \$50.0 million as of September 30, 2017. In addition to its policy of limiting the maximum total lending commitment to any individual borrowing

relationship to \$50.0 million, 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 borrowing relationship at the time the lending commitment is approved. As of September 30, 2017, the Corporation had 143 individual borrowing relationships with total borrowing commitments between \$20.0 million and \$50.0 million.

The following table summarizes the industry concentrations within the commercial loan portfolio:

| | September 30, December 31, | | | |
|-----------------------------|----------------------------|---|-------|---|
| | 2017 | | 2016 | |
| Services | 22.1 | % | 21.8 | % |
| Retail | 15.6 | | 15.1 | |
| Manufacturing | 9.9 | | 9.2 | |
| Health care | 9.7 | | 10.5 | |
| Construction ⁽¹⁾ | 8.6 | | 9.0 | |
| Wholesale | 6.8 | | 7.0 | |
| Real estate ⁽²⁾ | 6.4 | | 6.7 | |
| Agriculture | 4.9 | | 5.0 | |
| Arts and entertainment | 2.5 | | 2.6 | |
| Transportation | 2.3 | | 2.3 | |
| Financial services | 2.1 | | 2.1 | |
| Other | 9.1 | | 8.7 | |
| Total | 100.0 | % | 100.0 | % |

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

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

Commercial loans and commercial mortgage loans also include shared national credits, which are participations in loans or loan commitments of at least \$20.0 million that are shared by three or more banks. Below is a summary of the Corporation's outstanding purchased shared national credits:

| | September 30, December 31, | |
|---|----------------------------|------------|
| | 2017 | 2016 |
| | (in thousands) | |
| Commercial - industrial, financial and agricultural | \$ 161,619 | \$ 155,353 |
| Real estate - commercial mortgage | 102,160 | 81,573 |
| Total | \$ 263,779 | \$ 236,926 |

Total shared national credits increased \$26.9 million, or 11.3%, in comparison to December 31, 2016 as a result of both new relationships and growth in existing relationships. The Corporation's shared national credits are to borrowers located in its geographical markets, and are granted subject to the Corporation's standard underwriting policies. None of the shared national credits were past due as of September 30, 2017 or December 31, 2016.

Provision and Allowance for Credit Losses

The Corporation has historically maintained an unallocated allowance for loan 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 loan losses is no longer necessary.

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

| | Three months ended September 30 | | Nine months ended September 30 | | |
|---|------------------------------------|---------------|-----------------------------------|---------------|---|
| | 2017 | 2016 | 2017 | 2016 | |
| | (dollars in thousands) | | | | |
| Average balance of loans, net of unearned income | \$ 15,392,067 | \$ 14,212,250 | \$ 15,127,569 | \$ 14,011,301 | |
| Balance of allowance for credit losses at beginning of period | \$ 174,998 | \$ 165,108 | \$ 171,325 | \$ 171,412 | |
| Loans charged off: | | | | | |
| Real estate – commercial mortgage | 483 | 1,350 | 1,949 | 3,406 | |
| Commercial – industrial, financial and agricultural | 2,714 | 3,144 | 13,594 | 13,957 | |
| Real estate – residential mortgage | 195 | 802 | 535 | 2,210 | |
| Real estate – home equity | 547 | 709 | 1,837 | 3,295 | |
| Real estate – construction | 2,744 | 150 | 3,765 | 1,218 | |
| Consumer | 373 | 685 | 1,659 | 2,261 | |
| Leasing, other and overdrafts | 739 | 832 | 2,578 | 3,226 | |
| Total loans charged off | 7,795 | 7,672 | 25,917 | 29,573 | |
| Recoveries of loans previously charged off: | | | | | |
| Real estate – commercial mortgage | 106 | 296 | 1,490 | 2,488 | |
| Commercial – industrial, financial and agricultural | 665 | 1,539 | 6,830 | 6,789 | |
| Real estate – residential mortgage | 219 | 228 | 600 | 784 | |
| Real estate – home equity | 252 | 241 | 604 | 929 | |
| Real estate – construction | 629 | 898 | 1,550 | 2,844 | |
| Consumer | 193 | 222 | 899 | 957 | |
| Leasing, other and overdrafts | 407 | 168 | 793 | 357 | |
| Total recoveries | 2,471 | 3,592 | 12,766 | 15,148 | |
| Net loans charged off | 5,324 | 4,080 | 13,151 | 14,425 | |
| Provision for credit losses | 5,075 | 4,141 | 16,575 | 8,182 | |
| Balance of allowance for credit losses at end of period | \$ 174,749 | \$ 165,169 | \$ 174,749 | \$ 165,169 | |
| Net charge-offs to average loans (annualized) | 0.14 | % 0.11 | % 0.12 | % 0.14 | % |

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

| | September 30, 2017 | December 31, 2016 |
|--|------------------------|----------------------|
| | (dollars in thousands) | |
| Allowance for loan losses | \$ 172,245 | \$ 168,679 |
| Reserve for unfunded lending commitments | 2,504 | 2,646 |
| Allowance for credit losses | \$ 174,749 | \$ 171,325 |

Allowance for credit losses to loans outstanding 1.13 % 1.17 %

The provision for credit losses for the three months ended September 30, 2017 was \$5.1 million, an increase of \$934,000 in comparison to the same period in 2016. For the nine months ended September 30, 2017, the provision for credit losses was \$16.6 million, an increase of \$8.4 million in comparison to the first nine months of 2016. The increases in the provision for credit losses largely reflected growth in the loan portfolio.

Net charge-offs increased \$1.2 million, to \$5.3 million for the third quarter of 2017, compared to \$4.1 million for the third quarter of 2016. This increase resulted from a decrease in recoveries of loans previously charged off. Of the \$5.3 million of net charge-offs recorded in the third quarter of 2017, the majority were for loans originated in Pennsylvania (\$4.4 million), New Jersey (\$638,000) and Maryland (\$406,000), partially offset by net recoveries in Virginia and

Delaware.

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For the first nine months of 2017, net charge-offs decreased \$1.3 million, to \$13.2 million compared to \$14.4 million for the same period of 2016. A \$3.7 million decrease in gross charge-offs was partially offset by a \$2.4 million decrease in recoveries. Of the \$13.2 million of net charge-offs recorded in the first nine months of 2017, the majority were for loans originated in Pennsylvania (\$11.9 million), New Jersey (\$1.2 million) and Maryland (\$349,000), partially offset by net recoveries in Virginia and Delaware.

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

| | September 30, 2017 | September 30, 2016 | December 31, 2016 | | |
|---|------------------------|-----------------------|----------------------|---|---|
| | (dollars in thousands) | | | | |
| Non-accrual loans | \$123,345 | \$124,017 | \$120,133 | | |
| Loans 90 days or more past due and still accruing | 13,124 | 14,095 | 11,505 | | |
| Total non-performing loans | 136,469 | 138,112 | 131,638 | | |
| Other real estate owned (OREO) | 10,542 | 11,981 | 12,815 | | |
| Total non-performing assets | \$147,011 | \$150,093 | \$144,453 | | |
| Non-accrual loans to total loans | 0.80 | % 0.86 | % 0.82 | % | % |
| Non-performing assets to total assets | 0.73 | % 0.80 | % 0.76 | % | % |
| Allowance for credit losses to non-performing loans | 128.05 | % 119.59 | % 130.15 | % | % |

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

| | September 30, 2017 | September 30, 2016 | December 31, 2016 |
|------------------------------------|-----------------------|-----------------------|----------------------|
| | (in thousands) | | |
| Real-estate - residential mortgage | \$26,193 | \$26,854 | \$27,617 |
| Real-estate - commercial mortgage | 14,439 | 16,085 | 15,957 |
| Real estate - home equity | 14,789 | 7,668 | 8,594 |
| Commercial | 7,512 | 7,488 | 6,627 |
| Construction | 169 | 843 | 726 |
| Consumer | 33 | 39 | 39 |
| Total accruing TDRs | 63,135 | 58,977 | 59,560 |
| Non-accrual TDRs ⁽¹⁾ | 28,742 | 27,904 | 27,850 |
| Total TDRs | \$91,877 | \$86,881 | \$87,410 |

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

TDRs modified during the first nine months of 2017 and still outstanding as of September 30, 2017 totaled \$16.6 million. During the first nine months of 2017, \$5.4 million of TDRs that were modified in the previous 12 months had a payment default, which the Corporation defines as a single missed scheduled payment, subsequent to modification.

The following table presents the changes in non-accrual loans for the three and nine months ended September 30, 2017:

| | 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 |
|--|--|---------------------------------|--------------------------|------------------------------------|---------------------------|----------|---------|-----------|
| Three months ended September 30, 2017 | | | | | | | | |
| Balance of non-accrual loans at June 30, 2017 | \$48,087 | \$32,267 | \$15,586 | \$16,940 | \$9,720 | \$— | \$— | \$122,600 |
| Additions | 16,107 | 6,281 | 1,512 | 1,399 | 995 | 373 | 325 | 26,992 |
| Payments | (8,774) | (5,974) | (999) | (891) | (483) | — | — | (17,121) |
| Charge-offs | (2,714) | (483) | (2,744) | (195) | (547) | (373) | (325) | (7,381) |
| Transfers to OREO | — | (325) | — | (868) | (552) | — | — | (1,745) |
| Balance of non-accrual loans at September 30, 2017 | \$52,706 | \$31,766 | \$13,355 | \$16,385 | \$9,133 | \$— | \$— | \$123,345 |
| Nine months ended September 30, 2017 | | | | | | | | |
| Balance of non-accrual loans at December 31, 2016 | \$42,349 | \$38,936 | \$9,806 | \$18,431 | \$10,611 | \$— | \$— | \$120,133 |
| Additions | 40,508 | 14,055 | 10,259 | 2,545 | 3,694 | 1,659 | 1,443 | 74,163 |
| Payments | (16,554) | (16,955) | (2,796) | (2,141) | (1,141) | — | — | (39,587) |
| Charge-offs | (13,594) | (1,949) | (3,765) | (535) | (1,837) | (1,659) | (1,443) | (24,782) |
| Transfers to accrual status | — | (913) | — | (54) | (678) | — | — | (1,645) |
| Transfers to OREO | (3) | (1,408) | (149) | (1,861) | (1,516) | — | — | (4,937) |
| Balance of non-accrual loans at September 30, 2017 | \$52,706 | \$31,766 | \$13,355 | \$16,385 | \$9,133 | \$— | \$— | \$123,345 |

Non-accrual loans increased \$672,000, or 0.5%, and \$3.2 million, or 2.7%, in comparison to September 30, 2016 and December 31, 2016, respectively.

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

| | September 30, 2017 | September 30, 2016 | December 31, 2016 |
|---|--------------------|--------------------|-------------------|
| | (in thousands) | | |
| Commercial – industrial, financial and agricultural | \$54,209 | \$47,330 | \$43,460 |
| Real estate – commercial mortgage | 34,650 | 39,631 | 39,319 |
| Real estate – residential mortgage | 21,643 | 23,451 | 23,655 |
| Real estate – construction | 13,415 | 11,223 | 9,842 |
| Real estate – home equity | 12,229 | 14,260 | 13,154 |
| Consumer | 243 | 2,166 | 1,891 |
| Leasing | 80 | 51 | 317 |
| Total non-performing loans | \$136,469 | \$138,112 | \$131,638 |

Non-performing loans decreased \$1.6 million, or 1.2%, and increased \$4.8 million, or 3.7%, in comparison to September 30, 2016 and December 31, 2016, respectively. Non-performing loans to total loans was 0.88% at September 30, 2017 in comparison to 0.96% at September 30, 2016 and 0.90% at December 31, 2016.

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

| | September 30, 2017 | September 30, 2016 | December 31, 2016 |
|------------------------|--------------------|--------------------|-------------------|
| | (in thousands) | | |
| Residential properties | \$4,223 | \$ 6,279 | \$ 7,655 |
| Commercial properties | 3,709 | 3,050 | 2,651 |
| Undeveloped land | 2,610 | 2,652 | 2,509 |
| Total OREO | \$10,542 | \$ 11,981 | \$ 12,815 |

The ability to identify potential problem loans in a timely manner is important 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. The evaluation of credit risk for residential mortgages, home equity loans, construction loans to individuals, consumer loans and lease receivables is based on payment history, through the monitoring of delinquency levels and trends. For a description of the Corporation's risk ratings, see Note 5, "Loans and Allowance for Credit Losses," in the Notes to Consolidated Financial Statements.

Total internally risk-rated loans were \$11.4 billion and \$10.9 billion as of September 30, 2017 and December 31, 2016, respectively. The following table presents internal risk ratings for commercial loans, commercial mortgages and construction loans to commercial borrowers with internal risk ratings of Special Mention (considered criticized loans) or Substandard or lower (considered classified loans), by class segment. The shift from special mention to substandard or lower from December 31, 2016 to September 30, 2017 was primarily the result of downgrades of three large relationships to substandard during the first nine months of 2017.

| | Special Mention | | Increase (Decrease) | | Substandard or lower | | Increase (Decrease) | | Total Criticized and Classified Loans | |
|---|------------------------|-------------------|---------------------|---------|----------------------|-------------------|---------------------|--------|---------------------------------------|-------------------|
| | September 30, 2017 | December 31, 2016 | \$ | % | September 30, 2017 | December 31, 2016 | \$ | % | September 30, 2017 | December 31, 2016 |
| | (dollars in thousands) | | | | | | | | | |
| Real estate - commercial mortgage | \$118,947 | \$132,484 | \$(13,537) | (10.2)% | \$127,670 | \$122,976 | \$4,694 | 3.8 | \$246,617 | \$255,460 |
| Commercial - secured | 98,639 | 128,873 | (30,234) | (23.5) | 183,181 | 118,527 | 64,654 | 54.5 | 281,820 | 247,400 |
| Commercial - unsecured | 3,474 | 4,481 | (1,007) | (22.5) | 3,082 | 3,531 | (449) | (12.7) | 6,556 | 8,012 |
| Total Commercial - industrial, financial and agricultural | 102,113 | 133,354 | (31,241) | (23.4) | 186,263 | 122,058 | 64,205 | 52.6 | 288,376 | 255,412 |
| Construction - commercial residential | 6,746 | 15,447 | (8,701) | (56.3) | 14,595 | 13,172 | 1,423 | 10.8 | 21,341 | 28,619 |
| Construction - commercial | 4,418 | 3,412 | 1,006 | 29.5 | 3,869 | 5,115 | (1,246) | (24.4) | 8,287 | 8,527 |
| Total real estate - construction | 11,164 | 18,859 | (7,695) | (40.8) | 18,464 | 18,287 | 177 | 1.0 | 29,628 | 37,146 |

(excluding
construction
- other)

| | | | | | | | | | | | |
|-----------------------------------|-----------|-----------|------------|---------|-----------|-----------|----------|------|---|-----------|----------|
| Total | \$232,224 | \$284,697 | \$(52,473) | (18.4)% | \$332,397 | \$263,321 | \$69,076 | 26.2 | % | \$564,621 | \$548,01 |
| % of total risk-rated loans | 2.0 | % 2.6 | % | | 2.9 | % 2.4 | % | | | 5.0 | % 5.0 |

The following table summarizes loan delinquency rates, by type, as of the dates indicated:

| | September 30, 2017 | | | September 30, 2016 | | | December 31, 2016 | | | |
|---|--------------------|---------------|-----------|--------------------|---------------|-----------|-------------------|---------------|-----------|---|
| | 30-89 Days | ≥ 90 Days (1) | Total | 30-89 Days | ≥ 90 Days (1) | Total | 30-89 Days | ≥ 90 Days (1) | Total | |
| Real estate – commercial mortgage | 0.20 | % 0.55 | % 0.75 | % 0.18 | % 0.69 | % 0.87 | % 0.13 | % 0.65 | % 0.78 | % |
| Commercial – industrial, financial and agricultural | 0.26 | % 1.28 | % 1.54 | % 0.31 | % 1.17 | % 1.48 | % 0.25 | % 1.06 | % 1.31 | % |
| Real estate – construction | 0.12 | % 1.38 | % 1.50 | % 0.31 | % 1.30 | % 1.61 | % 0.12 | % 1.17 | % 1.29 | % |
| Real estate – residential mortgage | 1.10 | % 1.15 | % 2.25 | % 1.15 | % 1.52 | % 2.67 | % 1.27 | % 1.48 | % 2.75 | % |
| Real estate – home equity | 0.83 | % 0.78 | % 1.61 | % 0.64 | % 0.87 | % 1.51 | % 0.57 | % 0.81 | % 1.38 | % |
| Consumer, leasing and other | 0.69 | % 0.06 | % 0.75 | % 1.18 | % 0.44 | % 1.62 | % 1.23 | % 0.42 | % 1.65 | % |
| Total | 0.40 | % 0.88 | % 1.28 | % 0.42 | % 0.96 | % 1.38 | % 0.38 | % 0.89 | % 1.27 | % |
| Total dollars (in thousands) | \$62,247 | \$136,469 | \$198,716 | \$59,822 | \$138,112 | \$197,934 | \$55,149 | \$131,638 | \$186,787 | |

(1) Includes non-accrual loans.

Management believes that the allowance for credit losses of \$174.7 million as of September 30, 2017 is sufficient to cover incurred losses in the loan and lease portfolio and unfunded lending commitments as of that date and is appropriate based on U.S. GAAP.

Deposits and Borrowings

The following table presents ending deposits, by type, as of the dates indicated:

| | September 30, 2017 | December 31, 2016 | Increase (Decrease) | |
|-----------------------------------|--------------------|-------------------|---------------------|--------|
| | | | \$ | % |
| Noninterest-bearing demand | \$4,363,915 | \$4,376,137 | \$(12,222) | (0.3)% |
| Interest-bearing demand | 4,119,419 | 3,703,712 | 415,707 | 11.2 |
| Savings and money market accounts | 4,790,985 | 4,179,773 | 611,212 | 14.6 |
| Total demand and savings | 13,274,319 | 12,259,622 | 1,014,697 | 8.3 |
| Brokered deposits | 109,936 | — | 109,936 | N/M |
| Time deposits | 2,757,525 | 2,753,242 | 4,283 | 0.2 |
| Total deposits | \$16,141,780 | \$15,012,864 | \$1,128,916 | 7.5% |

N/M - Not meaningful

Interest-bearing demand accounts increased \$415.7 million, or 11.2%, due to a \$401.4 million, or 30.8%, seasonal increase in municipal account balances and a \$25.3 million, or 7.8%, increase in business accounts, which was partially offset by a \$10.1 million, or 0.5%, decrease in personal account balances.

The \$611.2 million, or 14.6%, increase in savings and money market account balances was primarily due to a \$449.1 million, or 16.0%, increase in personal account balances and an \$83.3 million, or 10.5%, increase in business account balances as a result of certain promotions that occurred during the year. In addition, municipal account balances experienced seasonal increases of \$78.8 million, or 13.7%.

Brokered deposits totaled \$109.9 million as of September 30, 2017. As previously noted, during the third quarter of 2017, the Corporation began accepting deposits pursuant to an agreement with a non-bank third party, which are considered to be brokered deposits.

The following table presents ending short-term borrowings and long-term debt by type, as of the dates indicated:

| | | | Increase (Decrease) | |
|--------------------------------------|-----------------------|----------------------|---------------------|--------|
| | September 30, 2017 | December 31, 2016 | \$ | % |
| (dollars in thousands) | | | | |
| Short-term borrowings: | | | | |
| Customer repurchase agreements | \$ 185,945 | \$ 195,734 | \$(9,789) | (5.0)% |
| Customer short-term promissory notes | 106,994 | 67,013 | 39,981 | 59.7 |
| Total short-term customer funding | 292,939 | 262,747 | 30,192 | 11.5 |
| Federal funds purchased | 5,812 | 278,570 | (272,758) | (97.9) |
| Total short-term borrowings | 298,751 | 541,317 | (242,566) | (44.8) |
| Long-term debt: | | | | |
| FHLB advances | 652,145 | 567,240 | 84,905 | 15.0 |
| Other long-term debt | 386,014 | 362,163 | 23,851 | 6.6 |
| Total long-term debt | 1,038,159 | 929,403 | 108,756 | 11.7 |
| Total borrowings | \$ 1,336,910 | \$ 1,470,720 | \$(133,810) | (9.1)% |

Total borrowings decreased \$133.8 million, or 9.1%, due to a \$242.6 million, or 44.8%, decrease in short-term borrowings, partially offset by an \$108.8 million, or 11.7%, increase in long-term debt. The decrease in short-term borrowings was mainly in federal funds purchased as borrowings were reduced with funding provided by deposit growth. The increase of \$84.9 million, or 15.0%, in long-term FHLB advances provided additional funding to support loan growth. The increase in other long-term debt was primarily the result of the issuance of \$125.0 million of senior notes in March 2017, offset by the repayment of the \$100.0 million of 10-year subordinated notes, which matured on May 1, 2017.

Shareholders' Equity

Total shareholders' equity increased \$104.7 million, or 4.9%, during the first nine months of 2017. The increase was due primarily to \$137.8 million of net income, \$7.0 million of stock issued and a \$14.2 million increase in other comprehensive income, partially offset by \$57.7 million of common stock dividends.

In November 2016, the Corporation's board of directors approved an extension, through December 31, 2017, to a share repurchase program pursuant to which the Corporation is authorized to repurchase up to \$50.0 million of its outstanding shares of common stock, or approximately 2.3% of its outstanding shares. Repurchased shares may be added to treasury stock, at cost. As permitted by securities laws and other legal requirements and subject to market conditions and other factors, purchases may be made from time to time in open market or privately negotiated transactions, including without limitation, through accelerated share repurchase transactions. The share repurchase program may be discontinued at any time. As of September 30, 2017, 1.5 million shares had been repurchased under this program for a total cost of \$18.5 million, or \$12.48 per share. Up to an additional \$31.5 million of the Corporation's common stock may be repurchased under this program through December 31, 2017.

Regulatory Capital

The Corporation and its subsidiary banks are subject to regulatory capital requirements administered by various banking regulators. Failure to meet minimum capital requirements could result in certain actions by regulators that could have a material effect on the Corporation's financial statements. 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 will be fully phased in on January 1, 2019.

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

• Meet a minimum Common Equity Tier 1 capital ratio of 4.50% of risk-weighted assets and a Tier 1 capital ratio of 6.00% of risk-weighted assets;

• Continue to require a minimum Total capital ratio of 8.00% of risk-weighted assets and a 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 trust preferred securities ("TruPS"), have been phased out as a component of Tier 1 capital for institutions of the Corporation's size.

When fully phased in on January 1, 2019, the Corporation and its bank subsidiaries will also be required to maintain a "capital conservation buffer" of 2.50% above the minimum risk-based capital requirements, which must be maintained to avoid restrictions on capital distributions and certain discretionary bonus payments.

The U.S. Basel III Capital Rules use a standardized approach for risk weightings that expands 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.

As of September 30, 2017, the Corporation and each of its bank subsidiaries met the minimum requirements of the U.S. Basel III Capital Rules, and each of the Corporation's bank subsidiaries' capital ratios exceeded the amounts required to be considered "well capitalized" as defined in the regulations. As of September 30, 2017, the Corporation's capital levels also met the fully-phased in minimum capital requirements, including the capital conservation buffers, as prescribed in the U.S. Basel III Capital Rules.

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

| | September 30, 2017 | | December 31, 2016 | | Regulatory Minimum for Capital Adequacy | | Fully Phased-in, with Capital Conservation Buffers | |
|--|--------------------|---|-------------------|---|---|---|--|---|
| Total Capital (to Risk-Weighted Assets) | 13.1 | % | 13.2 | % | 8.0 | % | 10.5 | % |
| Tier I Capital (to Risk-Weighted Assets) | 10.4 | % | 10.4 | % | 6.0 | % | 8.5 | % |
| Common Equity Tier I (to Risk-Weighted Assets) | 10.4 | % | 10.4 | % | 4.5 | % | 7.0 | % |
| Tier I Capital (to Average Assets) | 9.0 | % | 9.0 | % | 4.0 | % | 4.0 | % |

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the exposure to economic loss that arises from changes in the values of certain financial instruments. The types of market risk exposures generally faced by financial institutions include interest rate risk, equity market price risk, debt security market price risk, foreign currency 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 do they 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 in the investment portfolio. Assumptions based on past experience are incorporated into the model for non-maturity deposit accounts. The assumptions used are inherently uncertain and, as a result, the model cannot precisely measure future net interest income or precisely predict the impact of fluctuations in market interest rates on net interest income. Actual results will differ from the model's simulated results due to timing, amount and frequency of interest rate changes as well as changes in market conditions and the application and timing of various management strategies.

The following table summarizes the expected impact of abrupt interest rate changes on net interest income as of September 30, 2017 (due to the current level of interest rates, the 200 and 300 basis point downward shock scenarios are not shown):

| Rate Shock (1) | Annual change in net interest income | % Change in net interest income |
|----------------|---|---------------------------------|
| +300 bp | + \$93.9 million | 15.5% |
| +200 bp | + \$64.5 million | 10.6% |

| | | |
|---------|------------------|--------|
| +100 bp | + \$32.9 million | 5.4% |
| -100 bp | - \$49.0 million | - 8.1% |

(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 September 30, 2017, the Corporation was within economic value of equity policy limits for every 100 basis point shock.

Interest Rate Swaps

The Corporation enters into interest rate swaps with certain qualifying commercial loan customers to meet their interest rate risk management needs. The Corporation simultaneously enters into interest rate swaps with dealer counterparties, with identical notional amounts and terms. The net result of these interest rate swaps is that the customer pays a fixed rate of interest and the Corporation receives a floating rate. These interest rate swaps are derivative financial instruments that are recorded at their fair value in other assets and liabilities on the consolidated balance sheets. Changes in fair value during the period are recorded in other non-interest expense on the consolidated statements of income.

Liquidity

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

The Corporation maintains liquidity sources in the form of demand and savings deposits, 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 income if rates on interest-earning assets do not experience a proportionate increase. Borrowing availability with the FHLB and the Federal Reserve Bank, 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 September 30, 2017, the Corporation had \$652.1 million of advances outstanding from the FHLB with an additional borrowing capacity of approximately \$3.2 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 September 30, 2017, the Corporation had aggregate availability under federal funds lines of \$1.1 billion with \$5.8 million 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 September 30, 2017, the Corporation had \$908.5 million of collateralized borrowing availability at the Discount Window, and no outstanding borrowings.

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

The Corporation's sources and uses of funds were discussed in general terms in the "Net Interest Income" section of Management's Discussion and Analysis. The consolidated statements of cash flows provide additional information.

The Corporation's operating activities during the first nine months of 2017 generated \$194.4 million of cash, mainly due to net income. Cash used in investing activities was \$1.2 billion, mainly due to net increases in loans and short-term investments. Net cash provided by financing activities was \$945.7 million due mainly to increases in deposits, long-term debt and short-term borrowings.

Equity Market Price Risk

Equity market price risk is the risk that changes in the values of equity investments could have a material impact on the financial position or results of operations of the Corporation. As of September 30, 2017, equity investments consisted of \$12.1 million of common stocks of publicly traded financial institutions and \$1.0 million of other equity investments.

The equity investments most susceptible to equity market price risk are the financial institutions stocks, which had a cost basis of approximately \$5.8 million and an estimated fair value of \$12.1 million at September 30, 2017, including an investment in a single financial institution with a cost basis of \$4.2 million and an estimated fair value of \$8.8 million. The fair value of this investment

accounted for 73.4% of the fair value of the common stocks of publicly traded financial institutions. No other investment in a single financial institution in the financial institutions stock portfolio exceeded 10% of the portfolio's fair value. In total, net unrealized gains in this portfolio were approximately \$6.3 million as of September 30, 2017.

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

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

Debt Security Market Price Risk

Debt security market price risk is the risk that changes in the values 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 commercial and residential 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 September 30, 2017, the Corporation owned \$413.9 million of municipal securities issued by various states or municipalities. Downward pressure on local tax revenues of issuers could have an adverse impact on the underlying credit quality of issuers. The Corporation evaluates existing and potential holdings primarily based on the creditworthiness of the issuing state or municipality and then, to a lesser extent, on any underlying credit enhancement. State or 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 municipality. As of September 30, 2017, approximately 98% of state or municipal securities were supported by the general obligation of corresponding states or municipalities. Approximately 60% of these securities were school district issuances, which are also supported by the states of the issuing municipalities.

Auction Rate Securities

As of September 30, 2017, the Corporation's investments in auction rate certificates ("ARCs"), a type of auction rate security, had a cost basis of \$107.4 million and a fair value of \$98.2 million.

As of September 30, 2017, 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 were materially different from those that would 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 in 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 September 30, 2017, all of the ARCs were rated above investment grade. All of the loans underlying the ARCs have principal payments that are guaranteed by the federal government. At September 30, 2017, all ARCs were current and making scheduled interest payments.

Corporate Debt Securities

The Corporation holds corporate debt securities in the form of pooled trust preferred securities, single-issuer trust preferred securities, subordinated debt and senior debt issued by financial institutions. As of September 30, 2017, these securities had an amortized cost of \$92.4 million and an estimated fair value of \$93.0 million.

See "Note 4 - Investment Securities," in the Notes to Consolidated Financial Statements for further discussion related to the Corporation's other-than-temporary impairment evaluations for debt securities, and see "Note 11 - Fair Value Measurements," in the Notes to Consolidated Financial Statements for further discussion related to the fair values of debt securities.

Item 4. Controls and Procedures

The Corporation carried out an evaluation, under the supervision and with the participation of the Corporation's management, including the Corporation's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures pursuant to Rule 13a-15, promulgated under the Securities Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this quarterly report, the Corporation's disclosure controls and procedures are effective. Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in Corporation reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

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

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The information presented in the "Legal Proceedings" section of Note 10 "Commitment and Contingencies" of the Notes to Consolidated Financial Statements is incorporated herein by reference.

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in Part I, Item 1A of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2016.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

(a) None.

(b) None.

(c) There were no purchases of equity securities by the issuer or any affiliated purchasers during the three months ended September 30, 2017.

Item 6. Exhibits

3.1 Articles of Incorporation, as amended and restated, of Fulton Financial Corporation– Incorporated by reference to Exhibit 3.1 of the Fulton Financial Corporation Current Report on Form 8-K dated June 24, 2011. (File No. 0-10587)

3.2 Bylaws of Fulton Financial Corporation as amended – Incorporated by reference to Exhibit 3.1 of the Fulton Financial Corporation Current Report on an Amended Form 8-K dated September 23, 2014.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 Financial statements from the Quarterly Report on Form 10-Q of Fulton Financial Corporation for the period ended September 30, 2017, filed on November 3, 2017, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Shareholders' Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements - filed herewith.

FULTON FINANCIAL CORPORATION AND SUBSIDIARIES
SIGNATURES

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

FULTON FINANCIAL
CORPORATION

Date: November 3, 2017 /s/ E. Philip Wenger
E. Philip Wenger
Chairman, Chief Executive Officer and President

Date: November 3, 2017 /s/ Philmer H. Rohrbaugh
Philmer H. Rohrbaugh
Senior Executive Vice President, Chief Operating Officer
and Chief Financial Officer