

Dear Shareholder:

It was another solid year for our company, as we achieved record levels in revenue and net income, excluding the impact of the tax charge<sup>1</sup> resulting from the Tax Cuts and Jobs Act enacted in December 2017. Our financial results in 2017 reflected continued progress in executing our growth strategies, and the benefit of multiple interest rate increases by the Federal Reserve. We generated meaningful positive operating leverage, a goal that we set out to achieve at the beginning of the year. For the year ended December 31, 2017, we reported diluted earnings per share of \$0.98, an increase of 5.4% compared to 2016. Excluding the impact of the tax charge, we reported diluted earnings per share of \$1.07, an increase of 15.0% from 2016.

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

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

### **Loan and Deposit Growth**

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

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

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

### **Non-interest Income and Expenses**

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

Turning to expenses, our non-interest expenses increased 7.4% in 2017. The efficiency ratio<sup>2</sup> for 2017 improved to 64.5%, within our goal of 60.0% - 65.0%. In 2018, we will continue to invest in upgrading our systems and optimizing our customer delivery channels while preparing for bank charter consolidation. In addition, we plan on sharing some of the benefits from the new tax legislation with our employees, and increasing our investment in the communities we serve through our Fulton Forward™ initiative. Expense management is a top priority. We continually look for ways to make our organization more efficient while continuing to invest in our company to

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

### **Capital Management and Deployment/Enhancing Shareholder Value**

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

### **Looking Ahead**

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

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

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

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

Very truly yours,



E. Philip Wenger  
Chairman and CEO

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

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

This letter contains forward-looking statements with respect to our financial condition, results of operations or business. Forward-looking statements can be identified by the use of words such as "may," "should," "will," "could," "estimates," "predicts," "potential," "continue," "anticipates," "believes," "plans," "expects," "future," "intends" and similar expressions which are intended to identify forward-looking statements. Do not unduly rely on forward-looking statements. These forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties, some of which are beyond our control and ability to predict, that could cause actual results to differ materially from those expressed in the forward-looking statements.

A discussion of certain risks and uncertainties affecting us, and some of the factors that could cause our actual results to differ materially from those described in the forward-looking statements, can be found in the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2017, which accompanies this letter. We undertake no obligation, other than as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.