FULTON FINANCIAL CORP
Form 10-Q
May 05, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20459

FORM 10-Q

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

For the quarterly period ended March 31, 2016, 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	23-2195389
(State or other jurisdiction of incorporation or organization)	(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 ý 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 ý No ¨
Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company in Rule 12b-2 of the Exchange Act.
Large accelerated filer ý Accelerated filer ¨
Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

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 –173,466,000 shares outstanding as of April 29, 2016.

FULTON FINANCIAL CORPORATION
FORM 10-Q FOR THE THREE MONTHS ENDED MARCH 31, 2016
INDEX

2

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

(in thousands, except per-share data)

	March 31, 2016 (unaudited)	December 31, 2015
ASSETS		
Cash and due from banks	$83,479	$101,120
Interest-bearing deposits with other banks	346,582	230,300
Federal Reserve Bank and Federal Home Loan Bank stock	61,478	62,216
Loans held for sale	19,719	16,886
Available for sale investment securities	2,516,205	2,484,773
Loans, net of unearned income	13,870,701	13,838,602
Less: Allowance for loan losses	(163,841)	(169,054)
Net Loans	13,706,860	13,669,548
Premises and equipment	228,057	225,535
Accrued interest receivable	44,379	42,767
Goodwill and intangible assets	531,556	531,556
Other assets	583,939	550,017
Total Assets	$18,122,254	$17,914,718
LIABILITIES		
Deposits:		
Noninterest-bearing	$4,134,861	$3,948,114
Interest-bearing	10,269,419	10,184,203
Total Deposits	14,404,280	14,132,317
Short-term borrowings:		
Federal funds purchased	32,645	197,235
Other short-term borrowings	320,238	300,428
Total Short-Term Borrowings	352,883	497,663
Accrued interest payable	13,567	10,724
Other liabilities	312,561	282,578
Federal Home Loan Bank advances and long-term debt	965,654	949,542
Total Liabilities	16,048,945	15,872,824
SHAREHOLDERS’ EQUITY		
Common stock, $2.50 par value, 600 million shares authorized, 218.9 million shares issued in 2016 and 2015	547,262	547,141
Additional paid-in capital	1,452,471	1,450,690
Retained earnings	664,236	641,588
Accumulated other comprehensive loss	(5,137)	(22,017)
Treasury stock, at cost, 45.5 million shares in 2016 and 44.7 million shares in 2015	(585,523)	(575,508)
Total Shareholders’ Equity	2,073,309	2,041,894
Total Liabilities and Shareholders’ Equity	$18,122,254	$17,914,718

See Notes to Consolidated Financial Statements

3

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per-share data)	Three months ended March 31	
	2016	2015
INTEREST INCOME		
Loans, including fees	$134,079	$129,777
Investment securities:		
Taxable	12,003	11,282
Tax-exempt	2,040	2,087
Dividends	160	348
Loans held for sale	131	173
Other interest income	898	2,105
Total Interest Income	149,311	145,772
INTEREST EXPENSE		
Deposits	10,727	9,823
Short-term borrowings	268	77
Long-term debt	9,262	12,291
Total Interest Expense	20,257	22,191
Net Interest Income	129,054	123,581
Provision for credit losses	1,530	(3,700)
Net Interest Income After Provision for Credit Losses	127,524	127,281
NON-INTEREST INCOME		
Service charges on deposit accounts	12,558	11,569
Investment management and trust services	10,988	10,889
Other service charges and fees	10,750	9,363
Mortgage banking income	4,030	4,688
Net gains on sales of investment securities	947	4,145
Other	3,864	4,083
Total Non-Interest Income	43,137	44,737
NON-INTEREST EXPENSE		
Salaries and employee benefits	69,372	64,990
Net occupancy expense	12,220	13,692
Other outside services	6,056	5,750
Data processing	5,400	4,768
Software	3,921	3,318
Equipment expense	3,371	3,958
FDIC insurance expense	2,949	2,822
Supplies and postage	2,579	2,369
Professional fees	2,333	2,871
Marketing	1,624	1,233
Telecommunications	1,488	1,716
Other real estate owned and repossession expense	638	1,362
Operating risk loss	540	827
Intangible amortization	—	130
Other	7,922	8,672
Total Non-Interest Expense	120,413	118,478
Income Before Income Taxes	50,248	53,540
Income taxes	11,991	13,504

Net Income	$38,257	$40,036
PER SHARE:		
Net Income (Basic)	$0.22	$0.22
Net Income (Diluted)	0.22	0.22
Cash Dividends	0.09	0.09

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three months ended March 31	
	2016	2015
Net Income	$38,257	$40,036
Other Comprehensive Income, net of tax:		
Unrealized gain on securities	17,026	9,992
Reclassification adjustment for securities gains included in net income	(616)	(2,695)
Non-credit related unrealized gain on other-than-temporarily impaired debt securities	—	125
Amortization of unrealized loss on derivative financial instruments	4	34
Amortization of net unrecognized pension and postretirement items	466	466
Other Comprehensive Income	16,880	7,922
Total Comprehensive Income	$55,137	$47,958

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2016 AND 2015

(in thousands, except per-share data)

	Common Stock						
	Shares Outstanding	Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at December 31, 2015	174,176	$547,141	$1,450,690	$641,588	$ (22,017)	$(575,508)	$2,041,894
Net income				38,257			38,257
Other comprehensive income					16,880		16,880
Stock issued, including related tax benefits	134	121	345			1,181	1,647
Stock-based compensation awards			1,436				1,436
Acquisition of treasury stock	(917)					(11,196)	(11,196)
Common stock cash dividends - $0.09 per share				(15,609)			(15,609)
Balance at March 31, 2016	173,393	$547,262	$1,452,471	$664,236	$ (5,137)	$(585,523)	$2,073,309
Balance at December 31, 2014	178,924	$545,555	$1,420,523	$558,810	$ (17,722)	$(510,501)	$1,996,665
Net income				40,036			40,036
Other comprehensive income					7,922		7,922
Stock issued, including related tax benefits	174	179	418			1,344	1,941
Stock-based compensation awards			1,071				1,071
Common stock cash dividends - $0.09 per share				(16,122)			(16,122)
Balance at March 31, 2015	179,098	$545,734	$1,422,012	$582,724	$ (9,800)	$(509,157)	$2,031,513

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Three months ended March 31	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$38,257	$40,036
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	1,530	(3,700)
Depreciation and amortization of premises and equipment	6,949	7,361
Net amortization of investment securities premiums	2,055	1,431
Investment securities gains, net	(947)	(4,145)
Gain on sales of mortgage loans held for sale	(2,670)	(3,533)
Proceeds from sales of mortgage loans held for sale	114,255	171,051
Originations of mortgage loans held for sale	(114,418)	(184,120)
Amortization of intangible assets	—	130
Amortization of issuance costs on long-term debt	154	147
Stock-based compensation	1,436	1,071
Excess tax benefits from stock-based compensation	(10)	(15)
Increase in accrued interest receivable	(1,612)	(398)
(Increase) decrease in other assets	(4,469)	3,794
Increase in accrued interest payable	2,843	312
(Decrease) increase in other liabilities	(9,245)	1,234
Total adjustments	(4,149)	(9,380)
Net cash provided by operating activities	34,108	30,656
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available for sale	46,541	11,567
Proceeds from maturities of securities available for sale	117,221	105,647
Purchase of securities available for sale	(169,436)	(37,142)
Increase in short-term investments	(115,544)	(280,584)
Net increase in loans	(38,976)	(6,362)
Net purchases of premises and equipment	(9,471)	(7,575)
Net cash used in investing activities	(169,665)	(214,449)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand and savings deposits	269,899	171,022
Net increase (decrease) in time deposits	2,064	(24,031)
(Decrease) increase in short-term borrowings	(144,780)	80,386
Additions to long-term debt	16,000	—
Repayments of long-term debt	(42)	(45,043)
Net proceeds from issuance of common stock	1,637	1,926
Excess tax benefits from stock-based compensation	10	15
Dividends paid	(15,676)	(14,314)
Acquisition of treasury stock	(11,196)	—
Net cash provided by financing activities	117,916	169,961
Net Decrease in Cash and Due From Banks	(17,641)	(13,832)
Cash and Due From Banks at Beginning of Period	101,120	105,702
Cash and Due From Banks at End of Period	$83,479	$91,870
Supplemental Disclosures of Cash Flow Information:		

Cash paid during the period for:		
Interest	$17,414	$21,879
Income taxes	3,972	146

See Notes to Consolidated Financial Statements

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 Company's Annual Report on Form 10-K for the year ended December 31, 2015. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The Corporation evaluates subsequent events through the date of filing of this Form 10-Q with the Securities and Exchange Commission ("SEC").

Recently Adopted Accounting Standards

The Corporation adopted FASB ASC Update 2015-02, "Consolidation: Amendments to the Consolidation Analysis" effective January 1, 2016. ASC Update 2015-02 changed the way reporting enterprises evaluate whether: (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity ("VIE"), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. ASC Update 2015-02 was effective for public business entities' annual and interim reporting periods that began after December 15, 2015, with earlier adoption permitted. The adoption of ASC Update 2015-02 did not have a material impact on the Corporation's consolidated financial statements.

Effective January 1, 2016, the Corporation adopted FASB ASC Update 2015-03, "Interest - Imputation of Interest" and the updated ASC Update 2015-03 with the issuance of ASC Update 2015-15, “Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements.” ASC Update 2015-03 simplifies the presentation of debt issuances costs. Debt issuance costs related to a recognized debt liability will be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. Previously under U.S. GAAP, debt issuance costs were reported on the balance sheet as assets. The costs will continue to be amortized to interest expense using the effective interest method. ASC Update 2015-03 was effective for public business entities' annual and interim reporting periods beginning after December 15, 2015, with earlier adoption permitted. The adoption of ASC Update 2015-03 did not have a material impact on the Corporation's consolidated financial statements.

The Corporation prospectively adopted FASB issued ASC Update 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement" effective January 1, 2016. ASC Update 2015-05 provides explicit guidance to determine when a customer's fees paid in a cloud computing arrangement is for the acquisition of software licenses, services, or both. ASC Update 2015-05 was effective for public business entities' annual and interim reporting periods beginning after December 15, 2015, with earlier adoption permitted. The adoption of ASC Update 2015-05 did not have a material impact on the Corporation's consolidated financial statements.

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. For public business entities, ASC Update 2014-09 is effective for interim and annual reporting periods beginning after December 15, 2017. Early application is not permitted. For the Corporation, this standards update is effective with its March 31, 2018 quarterly report on Form 10-Q. The Corporation is currently evaluating the impact of the adoption of ASC Update 2014-09 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. 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. 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. Early application 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.

In March 2016, the FASB issued ASC Update 2016-09, "Stock Compensation: Improvements to Employee Share-Based Payment Accounting." The purpose of this standards update is to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liability, and classification on the statement of cash flows. ASC Update 2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016. Early application is permitted. For the Corporation, this standards update is effective with its March 31, 2017 quarterly report on Form 10-Q. The Corporation is currently evaluating the impact of the adoption of ASC Update 2016-09 on its consolidated financial statements.

Reclassifications

Certain amounts in the 2015 consolidated financial statements and notes have been reclassified to conform to the 2016 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, 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 March 31	
	2016	2015

	(in thousands)	
Weighted average shares outstanding (basic)	173,331	178,471
Impact of common stock equivalents	1,085	986
Weighted average shares outstanding (diluted)	174,416	179,457

For the three months ended March 31, 2016 and 2015, 885,000 and 2.1 million stock options, respectively, were excluded from the diluted net income per share computation as their effect would have been anti-dilutive.

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 March 31, 2016			
Unrealized gain on securities	$26,193	$(9,167)	$17,026
Reclassification adjustment for securities gains included in net income [(1)]	(947)	331	(616)
Amortization of unrealized loss on derivative financial instruments [(2)]	6	(2)	4
Amortization of net unrecognized pension and postretirement items [(3)]	717	(251)	466
Total Other Comprehensive Income	$25,969	$(9,089)	$16,880
Three months ended March 31, 2015			
Unrealized gain on securities	$15,371	$(5,379)	$9,992
Reclassification adjustment for securities gains included in net income [(1)]	(4,145)	1,450	(2,695)
Non-credit related unrealized gains on other-than-temporarily impaired debt securities	192	(67)	125
Amortization of unrealized loss on derivative financial instruments[(2)]	52	(18)	34
Amortization of net unrecognized pension and postretirement items [(3)]	717	(251)	466
Total Other Comprehensive Income	$12,187	$(4,265)	$7,922

(1) Amounts reclassified out of accumulated other comprehensive income. Before-tax amounts included in "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.

(3) 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, net of tax:

	Unrealized Gains (Losses) on Investment Securities Not Other-Than-Temporarily Impaired	Unrealized Non-Credit Gains (Losses) on Other-Than-Temporarily Impaired Debt Securities	Unrealized Effective Portions of Losses on Forward-Starting Interest Rate Swaps	Unrecognized Pension and Postretirement Plan Income (Costs)	Total
	(in thousands)				
Three months ended March 31, 2016					
Balance at December 31, 2015	$(6,499)	$ 458	$ (15)	$ (15,961)	$(22,017)
Other comprehensive income before reclassifications	17,026	—	—	—	17,026
Amounts reclassified from accumulated other comprehensive income (loss)	(616)	—	4	466	(146)
Balance at March 31, 2016	$9,911	$ 458	$ (11)	$ (15,495)	$(5,137)
Three months ended March 31, 2015					
Balance at December 31, 2014	$5,980	$ 1,349	$ (2,546)	$ (22,505)	$(17,722)

Other comprehensive income before reclassifications	9,992	125	—	—	10,117
Amounts reclassified from accumulated other comprehensive income (loss)	(1,661)	(1,034)	34	466	(2,195)
Balance at March 31, 2015	$14,311	$ 440	$ (2,512)	$ (22,039)	$(9,800)

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)			
March 31, 2016				
U.S. Government sponsored agency securities	$25,149	$ 24	$—	$25,173
State and municipal securities	307,038	7,025	(53)	314,010
Corporate debt securities	95,389	2,773	(8,276)	89,886
Collateralized mortgage obligations	782,018	5,322	(5,265)	782,075
Mortgage-backed securities	1,169,552	19,454	(338)	1,188,668
Auction rate securities	106,871	—	(9,545)	97,326
Total debt securities	2,486,017	34,598	(23,477)	2,497,138
Equity securities	14,228	4,852	(13)	19,067
Total	$2,500,245	$ 39,450	$(23,490)	$2,516,205

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in thousands)			
December 31, 2015				
U.S. Government sponsored agency securities	$25,154	$ 35	$ (53)	$ 25,136
State and municipal securities	256,746	6,019	—	262,765
Corporate debt securities	100,336	2,695	(6,076)	96,955
Collateralized mortgage obligations	835,439	3,042	(16,972)	821,509
Mortgage-backed securities	1,154,935	10,104	(6,204)	1,158,835
Auction rate securities	106,772	—	(8,713)	98,059
Total debt securities	2,479,382	21,895	(38,018)	2,463,259
Equity securities	$14,677	$ 6,845	$ (8)	$ 21,514
Total	2,494,059	28,740	(38,026)	2,484,773

Securities carried at $1.6 billion as of March 31, 2016 and $1.7 billion as of December 31, 2015 were pledged as collateral to secure public and trust deposits and customer repurchase agreements.

Equity securities include common stocks of financial institutions (estimated fair value of $18.2 million at March 31, 2016 and $20.6 million at December 31, 2015) and other equity investments (estimated fair value of $892,000 at March 31, 2016 and $914,000 at December 31, 2015).

As of March 31, 2016, the financial institutions stock portfolio had a cost basis of $13.4 million and an estimated fair value of $18.2 million, including an investment in a single financial institution with a cost basis of $7.4 million and an estimated fair value of $9.1 million. The estimated fair value of this investment accounted for 50.3% 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 March 31, 2016, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
	(in thousands)	
Due in one year or less	$64,096	$64,475
Due from one year to five years	89,237	91,302
Due from five years to ten years	92,154	95,021
Due after ten years	288,960	275,597
	534,447	526,395
Collateralized mortgage obligations	782,018	782,075
Mortgage-backed securities	1,169,552	1,188,668
Total debt securities	$2,486,017	$2,497,138

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

	Gross Realized Gains	Gross Realized Losses	Net Gains (Losses)
Three months ended March 31, 2016	(in thousands)		
Equity securities	$733	$ —	$ 733
Debt securities	214	—	214
Total	$947	$ —	$ 947
Three months ended March 31, 2015			
Equity securities	$1,970	$ —	$ 1,970
Debt securities	2,175	—	2,175
Total	$4,145	$ —	$ 4,145

The following table presents a summary of the cumulative credit related other-than-temporary impairment charges, recognized as components of earnings, for debt securities held by the Corporation at March 31, 2016 and 2015:

	Three months ended March 31	
	2016	2015
	(in thousands)	
Balance of cumulative credit losses on debt securities, beginning of period	$(11,510)	$(16,242)
Reductions for securities sold during the period	—	3,938
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	—	2
Balance of cumulative credit losses on debt securities, end of period	$(11,510)	$(12,302)

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 March 31, 2016:

	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(in thousands)					
State and municipal securities	$17,961	$ (53)	$—	$—	$17,961	$(53)
Corporate debt securities	—	—	30,762	(8,276)	30,762	(8,276)
Collateralized mortgage obligations	21,078	(87)	461,807	(5,178)	482,885	(5,265)
Mortgage-backed securities	98,180	(175)	30,243	(163)	128,423	(338)
Auction rate securities	—	—	97,326	(9,545)	97,326	(9,545)
Total debt securities	137,219	(315)	620,138	(23,162)	757,357	(23,477)
Equity securities	50	(3)	12	(10)	62	(13)
	$137,269	$ (318)	$620,150	$(23,172)	$757,419	$(23,490)

The Corporation’s collateralized mortgage obligations and mortgage-backed securities have contractual terms that generally do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Because the decline in market value of these securities is attributable to changes in interest rates and not credit quality, and because the Corporation does not have the intent to sell and does not believe it will more likely than not be required to sell any of these securities prior to a recovery of their fair value to amortized cost, the Corporation does not consider these investments to be other-than-temporarily impaired as of March 31, 2016.

As of March 31, 2016, all of the auction rate securities (auction rate certificates, or "ARCs"), were rated above investment grade, with approximately $5.5 million, or 6%, "AAA" rated and $91.8 million, or 94%, "AA" rated. All of the loans underlying the ARCs have principal payments which are guaranteed by the federal government. As of March 31, 2016, all ARCs were current and making scheduled interest payments. Based on management’s evaluations, ARCs with an estimated fair value of $97.3 million were not subject to any other-than-temporary impairment charges as of March 31, 2016. 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.

For its investments in equity securities, particularly its investments in stocks of financial institutions, management evaluates the near-term prospects of the issuers in relation to the severity and duration of the impairment. Based on that evaluation and the Corporation’s ability and intent to hold those investments for a reasonable period of time sufficient for a recovery of fair value, the Corporation does not consider those investments with unrealized holding losses as of March 31, 2016 to be other-than-temporarily impaired.

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:

	March 31, 2016		December 31, 2015	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
	(in thousands)			
Single-issuer trust preferred securities	$43,673	$ 35,851	$44,648	$ 39,106
Subordinated debt	47,681	49,294	51,653	53,108
Pooled trust preferred securities	—	706	—	706
Corporate debt securities issued by financial institutions	91,354	85,851	96,301	92,920
Other corporate debt securities	4,035	4,035	4,035	4,035
Available for sale corporate debt securities	$95,389	$ 89,886	$100,336	$ 96,955

Single-issuer trust preferred securities had an unrealized loss of $7.8 million at March 31, 2016. Six of the 19 single-issuer trust preferred securities were rated below investment grade by at least one ratings agency, with an amortized cost of $11.5 million and an estimated fair value of $9.0 million at March 31, 2016. All of the single-issuer trust preferred securities rated below investment grade were rated "BB" or "Ba". Two single-issuer trust preferred securities with an amortized cost of $3.7 million and an estimated fair value of $2.4 million at March 31, 2016 were not rated by any ratings agency.

Based on management’s evaluations, corporate debt securities with a fair value of $89.9 million were not subject to any other-than-temporary impairment charges as of March 31, 2016. 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:

	March 31, 2016	December 31, 2015
	(in thousands)	
Real-estate - commercial mortgage	$5,558,108	$5,462,330
Commercial - industrial, financial and agricultural	4,035,333	4,088,962
Real-estate - home equity	1,659,481	1,684,439
Real-estate - residential mortgage	1,377,459	1,376,160
Real-estate - construction	810,872	799,988
Consumer	263,221	268,588
Leasing and other	179,765	170,914
Overdrafts	2,379	2,737
Loans, gross of unearned income	13,886,618	13,854,118
Unearned income	(15,917)	(15,516)
Loans, net of unearned income	$13,870,701	$13,838,602

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 the FASB's 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 loans secured by collateral and unsecured loans. Construction loan class segments include loans secured by commercial real estate, loans to commercial borrowers secured by residential real estate and loans to individuals secured by residential real estate. Consumer loan class segments include direct consumer installment loans and indirect automobile loans.

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

	March 31, 2016	December 31, 2015
	(in thousands)	
Allowance for loan losses	$163,841	$ 169,054

Reserve for unfunded lending commitments	2,224	2,358
Allowance for credit losses	$166,065	$ 171,412

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

	Three months ended March 31	
	2016	2015
	(in thousands)	
Balance at beginning of period	$171,412	$185,931
Loans charged off	(11,155)	(5,764)
Recoveries of loans previously charged off	4,278	3,191
Net loans charged off	(6,877)	(2,573)
Provision for credit losses	1,530	(3,700)
Balance at end of period	$166,065	$179,658

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 March 31, 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	(582)	(6,188)	(1,541)	(1,068)	(326)	(1,007)	(443)	—	(11,155)
Recoveries of loans previously charged off	825	2,319	338	136	383	196	81	—	4,278
Net loans charged off	243	(3,869)	(1,203)	(932)	57	(811)	(362)	—	(6,877)
Provision for loan losses (1)	202	1,104	1,322	(515)	(304)	550	868	(1,563)	1,664
Balance at March 31, 2016	$48,311	$ 54,333	$ 22,524	$ 19,928	$ 6,282	$ 2,324	$ 2,974	$ 7,165	$163,841
Three months ended March 31, 2015									
Balance at December 31, 2014	$53,493	$ 51,378	$ 28,271	$ 29,072	$ 9,756	$ 3,015	$ 1,799	$ 7,360	$184,144
Loans charged off	(709)	(1,863)	(768)	(1,281)	—	(780)	(363)	—	(5,764)
Recoveries of loans previously charged off	436	786	251	159	1,147	241	171	—	3,191
Net loans charged off	(273)	(1,077)	(517)	(1,122)	1,147	(539)	(192)	—	(2,573)
Provision for loan losses (1)	(360)	6,849	(4,273)	(4,715)	(2,416)	51	46	948	(3,870)
	$52,860	$ 57,150	$ 23,481	$ 23,235	$ 8,487	$ 2,527	$ 1,653	$ 8,308	$177,701

Balance at March 31, 2015

(1) The provision for loan losses excluded a $134,000 decrease and a $170,000 increase, respectively, in the reserve for unfunded lending commitments for the three months ended March 31, 2016 and 2015. The total provision for credit losses, comprised of allocations for both funded and unfunded loans, was $1.5 million and negative $3.7 million for the three months ended March 31, 2016 and 2015, respectively.

The following table presents loans, net of unearned income and their related 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 (1)	Total
	(in thousands)								
Allowance for loan losses at March 31, 2016:									
Measured for impairment under FASB ASC Subtopic 450-20	$35,914	$40,969	$13,541	$7,599	$4,004	$2,302	$1,756	$7,165	$113,250
Evaluated for impairment under FASB ASC Section 310-10-35	12,397	13,364	8,983	12,329	2,278	22	1,218	N/A	50,591
	$48,311	$54,333	$22,524	$19,928	$6,282	$2,324	$2,974	$7,165	$163,841
Loans, net of unearned income at March 31, 2016:									
Measured for impairment under FASB ASC Subtopic 450-20	$5,499,820	$3,992,567	$1,641,457	$1,329,114	$797,282	$263,189	$164,806	N/A	$13,688,235
Evaluated for impairment under FASB ASC Section 310-10-35	58,288	42,766	18,024	48,345	13,590	32	1,421	N/A	182,466
	$5,558,108	$4,035,333	$1,659,481	$1,377,459	$810,872	$263,221	$166,227	N/A	$13,870,701
Allowance for loan losses at March 31, 2015:									
Measured for impairment under FASB ASC Subtopic 450-20	$38,916	$40,027	$16,937	$9,162	$6,037	$2,504	$1,653	$8,308	$123,544
Evaluated for impairment under FASB ASC Section 310-10-35	13,944	17,123	6,544	14,073	2,450	23	—	N/A	54,157
	$52,860	$57,150	$23,481	$23,235	$8,487	$2,527	$1,653	$8,308	$177,701
Loans, net of unearned income at March 31, 2015:									
Measured for impairment under FASB ASC Subtopic 450-20	$5,157,342	$3,716,037	$1,688,869	$1,312,861	$656,021	$257,265	$124,255	N/A	$12,912,650

Evaluated for impairment under FASB ASC Section 310-10-35	69,759	46,594	12,754	51,927	21,785	36	—	N/A	202,855
	$5,227,101	$3,762,631	$1,701,623	$1,364,788	$677,806	$257,301	$124,255	N/A	$13,115,505

(1) The unallocated allowance, which was approximately 4% and 5% of the total allowance for credit losses, respectively, as of March 31, 2016 and March 31, 2015, was, in the opinion of management, reasonable and appropriate given that the estimates used in the allocation process are inherently imprecise.

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.

Based on an evaluation of all relevant credit quality factors, the Corporation recorded a $1.5 million provision for credit losses during the three months ended March 31, 2016, compared to a $3.7 million negative provision for credit losses for the same period in 2015.

All loans individually evaluated for impairment under FASB ASC Section 310-10-35 are measured for losses on a quarterly basis.

As of March 31, 2016 and December 31, 2015, 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 March 31, 2016 and 2015, approximately 77% and 78%, respectively, of impaired loans with principal balances greater than or equal to $1.0 million, whose primary collateral is real estate, were measured at estimated fair value using state certified third-party appraisals 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:

	March 31, 2016			December 31, 2015		
	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	$26,361	$ 23,023	$ —	$27,872	$ 22,596	$ —
Commercial - secured	14,638	12,227	—	18,012	13,702	—
Real estate - residential mortgage	6,395	6,211	—	4,790	4,790	—
Construction - commercial residential	6,916	6,298	—	9,916	8,865	—
	54,310	47,759		60,590	49,953	
With a related allowance recorded:						
Real estate - commercial mortgage	44,849	35,265	12,397	45,189	35,698	12,471
Commercial - secured	34,752	29,655	12,850	39,659	33,629	14,085
Commercial - unsecured	1,039	884	514	971	821	498
Real estate - home equity	23,115	18,024	8,983	20,347	15,766	7,993
Real estate - residential mortgage	50,803	42,134	12,329	55,242	45,635	13,422
Construction - commercial residential	9,774	6,088	1,851	9,949	6,290	2,110
Construction - commercial	815	594	201	820	638	217
Construction - other	747	610	226	331	193	68
Consumer - direct	20	20	14	19	19	14
Consumer - indirect	12	12	8	14	14	8
Leasing, other and overdrafts	1,421	1,421	1,218	1,658	1,425	704
	167,347	134,707	50,591	174,199	140,128	51,590
Total	$221,657	$ 182,466	$ 50,591	$234,789	$ 190,081	$ 51,590

As of March 31, 2016 and December 31, 2015, there were $47.8 million and $50.0 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 March 31			
	2016		2015	
	Average Recorded Investment	Interest Income (1)	Average Recorded Investment	Interest Income (1)
	(in thousands)			
With no related allowance recorded:				
Real estate - commercial mortgage	$22,810	$ 69	$26,849	$ 91
Commercial - secured	12,964	16	14,676	21
Real estate - residential mortgage	5,501	30	4,866	28
Construction - commercial residential	7,582	19	14,222	55
Construction - commercial	—	—	1,138	—
	48,857	134	61,751	195
With a related allowance recorded:				
Real estate - commercial mortgage	35,482	108	39,660	133
Commercial - secured	31,642	38	24,950	36
Commercial - unsecured	853	1	1,175	1
Real estate - home equity	16,896	57	13,106	31
Real estate - residential mortgage	43,885	235	46,774	273
Construction - commercial residential	6,189	15	7,247	28
Construction - commercial	616	—	800	—
Construction - other	402	—	281	—
Consumer - direct	17	—	18	—
Consumer - indirect	16	—	19	—
Leasing, other and overdrafts	1,423	—	—	—
	137,421	454	134,030	502
Total	$186,278	$ 588	$195,781	$ 697

(1) All impaired loans, excluding accruing TDRs, were non-accrual loans. Interest income recognized for the three months ended March 31, 2016 and 2015 represents amounts earned on accruing TDRs.

Credit Quality Indicators and Non-performing Assets

The following table presents internal credit risk ratings for real estate - commercial mortgages, commercial - secured loans, commercial - unsecured loans, construction - commercial residential loans and construction - commercial loans:

	Pass		Special Mention		Substandard or Lower		Total	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
	(dollars in thousands)							
Real estate - commercial mortgage	$5,283,340	$5,204,263	$121,889	$102,625	$152,879	$155,442	$5,558,108	$5,462,330
Commercial - secured	3,668,743	3,696,692	78,508	92,711	134,446	136,710	3,881,697	3,926,113
Commercial - unsecured	147,630	156,742	2,634	2,761	3,372	3,346	153,636	162,849
Total commercial - industrial, financial and agricultural	3,816,373	3,853,434	81,142	95,472	137,818	140,056	4,035,333	4,088,962
Construction - commercial residential	146,590	140,337	17,068	17,154	18,621	21,812	182,279	179,303
Construction - commercial	559,351	552,710	2,842	3,684	4,623	3,597	566,816	559,991
Total construction (excluding Construction - other)	705,941	693,047	19,910	20,838	23,244	25,409	749,095	739,294
	$9,805,654	$9,750,744	$222,941	$218,935	$313,941	$320,907	$10,342,536	$10,290,586
% of Total	94.8 %	94.8 %	2.2 %	2.1 %	3.0 %	3.1 %	100.0 %	100.0 %

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 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. Risk ratings are initially assigned to loans by loan officers and are reviewed on a regular basis by credit administration staff. The Corporation's loan review officers provide a separate 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, consumer, lease receivables and construction loans to individuals secured by residential real estate. For these loans, the most relevant credit quality indicator is delinquency status. The migration of loans through the various delinquency status categories is a significant component of the allowance for credit losses methodology for those loans, which bases the probability of default on this migration.

The following table presents a summary of delinquency and non-performing status for home equity, real estate - residential mortgages, construction loans to individuals and consumer, leasing and other loans by class segment:

	Performing		Delinquent (1)		Non-performing (2)		Total	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
	(dollars in thousands)							
Real estate - home equity	$1,636,040	$1,660,773	$9,033	$8,983	$14,408	$14,683	$1,659,481	$1,684,439
Real estate - residential mortgage	1,334,744	1,329,371	17,533	18,305	25,182	28,484	1,377,459	1,376,160
Construction - other	60,481	59,997	686	88	610	609	61,777	60,694
Consumer - direct	90,204	94,262	1,662	2,254	1,597	2,203	93,463	98,719
Consumer - indirect	167,863	166,823	1,690	2,809	205	237	169,758	169,869
Total consumer	258,067	261,085	3,352	5,063	1,802	2,440	263,221	268,588
Leasing, overdrafts and other	164,002	155,870	711	759	1,514	1,506	166,227	158,135
	$3,453,334	$3,467,096	$31,315	$33,198	$43,516	$47,722	$3,528,165	$3,548,016
% of Total	97.9 %	97.7 %	0.9 %	1.0 %	1.2 %	1.3 %	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:

	March 31, 2016	December 31, 2015
	(in thousands)	
Non-accrual loans	$122,170	$ 129,523
Loans 90 days or more past due and still accruing	15,013	15,291
Total non-performing loans	137,183	144,814
Other real estate owned (OREO)	10,946	11,099
Total non-performing assets	$148,129	$ 155,913

The following table presents past due status and non-accrual loans by portfolio segment and class segment:

	March 31, 2016							
	30-59 Days Past Due	60-89 Days Past Due	≥ 90 Days Past Due and Accruing	Non-accrual	Total ≥ 90 Days	Total Past Due	Current	Total
	(in thousands)							
Real estate - commercial mortgage	$6,604	$1,824	$2,271	$40,861	$43,132	$51,560	$5,506,548	$5,558,108
Commercial - secured	16,053	3,194	2,024	36,360	38,384	57,631	3,824,066	3,881,697
Commercial - unsecured	415	—	—	756	756	1,171	152,465	153,636

Total commercial - industrial, financial and agricultural	16,468	3,194	2,024	37,116	39,140	58,802	3,976,531	4,035,333
Real estate - home equity	7,024	2,009	2,914	11,494	14,408	23,441	1,636,040	1,659,481
Real estate - residential mortgage	12,136	5,397	4,402	20,780	25,182	42,715	1,334,744	1,377,459
Construction - commercial residential	1,550	1,967	1,495	9,294	10,789	14,306	167,973	182,279
Construction - commercial	—	—	12	594	606	606	566,210	566,816
Construction - other	686	—	—	610	610	1,296	60,481	61,777
Total real estate - construction	2,236	1,967	1,507	10,498	12,005	16,208	794,664	810,872
Consumer - direct	1,068	594	1,597	—	1,597	3,259	90,204	93,463
Consumer - indirect	1,483	207	205	—	205	1,895	167,863	169,758
Total consumer	2,551	801	1,802	—	1,802	5,154	258,067	263,221
Leasing, overdrafts and other	615	96	93	1,421	1,514	2,225	164,002	166,227
Total	$47,634	$15,288	$15,013	$122,170	$137,183	$200,105	$13,670,596	$13,870,701

December
31, 2015