FULTON FINANCIAL CORP
Form 10-Q
August 04, 2017

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

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

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark 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 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 –174,941,000 shares outstanding as of July 28, 2017.

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

CONSOLIDATED BALANCE SHEETS

(in thousands, except per-share data)

	June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Cash and due from banks	$94,938	$118,763
Interest-bearing deposits with other banks	322,514	233,763
Federal Reserve Bank and Federal Home Loan Bank stock	70,328	57,489
Loans held for sale	62,354	28,697
Available for sale investment securities	2,488,699	2,559,227
Loans, net of unearned income	15,346,617	14,699,272
Less: Allowance for loan losses	(172,342)	(168,679)
Net Loans	15,174,275	14,530,593
Premises and equipment	217,558	217,806
Accrued interest receivable	47,603	46,294
Goodwill and intangible assets	531,556	531,556
Other assets	637,610	620,059
Total Assets	$19,647,435	$18,944,247
LIABILITIES		
Deposits:		
Noninterest-bearing	$4,574,619	$4,376,137
Interest-bearing	10,782,742	10,636,727
Total Deposits	15,357,361	15,012,864
Short-term borrowings:		
Federal funds purchased	206,269	278,570
Other short-term borrowings	488,590	262,747
Total Short-Term Borrowings	694,859	541,317
Accrued interest payable	7,804	9,632
Other liabilities	357,680	329,916
Federal Home Loan Bank advances and other long-term debt	1,037,961	929,403
Total Liabilities	17,455,665	16,823,132
SHAREHOLDERS’ EQUITY		
Common stock, $2.50 par value, 600 million shares authorized, 220.8 million shares issued in 2017 and 219.9 million shares issued in 2016	551,936	549,707
Additional paid-in capital	1,473,549	1,467,602
Retained earnings	782,541	732,099
Accumulated other comprehensive loss	(24,875)	(38,449)
Treasury stock, at cost, 45.9 million shares in 2017 and 45.8 million shares in 2016	(591,381)	(589,844)
Total Shareholders’ Equity	2,191,770	2,121,115
Total Liabilities and Shareholders’ Equity	$19,647,435	$18,944,247

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in thousands, except per-share data)	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
INTEREST INCOME				
Loans, including fees	$148,440	$134,643	$291,006	$268,722
Investment securities:				
Taxable	11,474	11,159	23,388	23,162
Tax-exempt	2,856	2,320	5,705	4,360
Dividends	109	135	238	295
Loans held for sale	201	188	388	319
Other interest income	801	864	1,643	1,762
Total Interest Income	163,881	149,309	322,368	298,620
INTEREST EXPENSE				
Deposits	12,884	10,887	24,685	21,614
Short-term borrowings	974	217	1,829	485
Federal Home Loan Bank advances and other long-term debt	8,460	9,289	16,712	18,551
Total Interest Expense	22,318	20,393	43,226	40,650
Net Interest Income	141,563	128,916	279,142	257,970
Provision for credit losses	6,700	2,511	11,500	4,041
Net Interest Income After Provision for Credit Losses	134,863	126,405	267,642	253,929
NON-INTEREST INCOME				
Other service charges and fees	14,342	12,983	26,779	23,733
Service charges on deposit accounts	12,914	12,896	25,314	25,454
Investment management and trust services	12,132	11,247	23,940	22,235
Mortgage banking income	6,141	3,897	10,737	7,927
Investment securities gains, net	1,436	76	2,542	1,023
Other	5,406	5,038	9,732	8,902
Total Non-Interest Income	52,371	46,137	99,044	89,274
NON-INTEREST EXPENSE				
Salaries and employee benefits	74,496	70,029	143,732	139,401
Net occupancy expense	12,316	11,811	24,979	24,031
Other outside services	7,708	5,508	13,254	11,564
Data processing	4,619	5,476	8,905	10,876
Software	4,435	3,953	9,128	7,874
Amortization of tax credit investments	3,151	—	4,149	—
Equipment expense	3,034	2,872	6,393	6,243
Professional fees	2,931	3,353	5,668	5,686
FDIC insurance expense	2,366	2,960	4,424	5,909
Marketing	2,234	1,916	4,220	3,540
Other	15,405	13,759	30,118	26,926
Total Non-Interest Expense	132,695	121,637	254,970	242,050
Income Before Income Taxes	54,539	50,905	111,716	101,153
Income taxes	9,072	11,155	22,869	23,146
Net Income	$45,467	$39,750	$88,847	$78,007
PER SHARE:				
Net Income (Basic)	$0.26	$0.23	$0.51	$0.45

Net Income (Diluted)	0.26	0.23	0.51	0.45
Cash Dividends	0.11	0.10	0.22	0.19

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Net Income	$45,467	$39,750	$88,847	$78,007
Other Comprehensive Income, net of tax:				
Unrealized gain on securities	10,268	12,839	14,541	29,865
Reclassification adjustment for securities gains included in net income	(932)	(49)	(1,651)	(665)
Amortization of unrealized loss on derivative financial instruments	—	4	—	8
Amortization of net unrecognized pension and postretirement items	341	32	684	498
Other Comprehensive Income	9,677	12,826	13,574	29,706
Total Comprehensive Income	$55,144	$52,576	$102,421	$107,713

See Notes to Consolidated Financial Statements

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

(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, 2016	174,040	$549,707	$1,467,602	$732,099	$ (38,449)	$(589,844)	$2,121,115
Net income				88,847			88,847
Other comprehensive income					13,574		13,574
Stock issued	877	2,229	4,178			(1,537)	4,870
Stock-based compensation awards			1,769				1,769
Common stock cash dividends - $0.22 per share				(38,405)			(38,405)
Balance at June 30, 2017	174,917	$551,936	$1,473,549	$782,541	$ (24,875)	$(591,381)	$2,191,770
Balance at December 31, 2015	174,176	$547,141	$1,450,690	$641,588	$ (22,017)	$(575,508)	$2,041,894
Net income				78,007			78,007
Other comprehensive loss					29,706		29,706
Stock issued, including related tax benefits	273	389	1,405			1,554	3,348
Stock-based compensation awards			3,256				3,256
Acquisition of treasury stock	(1,310)					(16,254)	(16,254)
Common stock cash dividends - $0.19 per share				(32,960)			(32,960)
Balance at June 30, 2016	173,139	$547,530	$1,455,351	$686,635	$ 7,689	$(590,208)	$2,106,997

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six months ended June 30	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$88,847	$78,007
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	11,500	4,041
Depreciation and amortization of premises and equipment	13,974	13,804
Net amortization of investment securities premiums	4,775	4,647
Investment securities gains, net	(2,542)	(1,023)
Gain on sales of mortgage loans held for sale	(6,562)	(7,110)
Proceeds from sales of mortgage loans held for sale	283,251	304,516
Originations of mortgage loans held for sale	(281,356)	(314,850)
Amortization of issuance costs on long-term debt	382	193
Stock-based compensation	1,769	3,256
Excess tax benefits from stock-based compensation	—	(28)
Increase in accrued interest receivable	(1,309)	(549)
Increase in other assets	(26,610)	(18,268)
Decrease in accrued interest payable	(1,828)	(2,388)
(Decrease) increase in other liabilities	(9,327)	9,866
Total adjustments	(13,883)	(3,893)
Net cash provided by operating activities	74,964	74,114
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available for sale	29,518	84,972
Proceeds from principal repayments and maturities of securities available for sale	225,788	282,832
Purchase of securities available for sale	(158,078)	(355,220)
Increase in short-term investments	(101,590)	(115,570)
Net increase in loans	(655,172)	(326,902)
Net purchases of premises and equipment	(13,726)	(17,130)
Net cash used in investing activities	(673,260)	(447,018)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand and savings deposits	351,329	202,552
Net decrease in time deposits	(6,832)	(42,305)
Increase in short-term borrowings	153,542	224,551
Additions to long-term debt	223,251	16,000
Repayments of long-term debt	(115,075)	(183)
Net proceeds from issuance of common stock	4,870	3,320
Excess tax benefits from stock-based compensation	—	28
Dividends paid	(36,614)	(31,278)
Acquisition of treasury stock	—	(16,254)
Net cash provided by financing activities	574,471	356,431
Net Decrease in Cash and Due From Banks	(23,825)	(16,473)
Cash and Due From Banks at Beginning of Period	118,763	101,120
Cash and Due From Banks at End of Period	$94,938	$84,647
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		

Interest	$45,054	$43,038
Income taxes	7,016	9,087
Supplemental schedule of certain noncash activities:		
Transfer of student loans to loans held for sale	$28,990	$—

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 Company's Annual Report on Form 10-K for the year ended December 31, 2016. Operating results for the six months ended June 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. During 2016, the FASB issued amendments to this standard (ASC Updates 2016-08, 2016-10, 2016-11 and 2016-12). 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. 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. 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. 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. 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 is currently evaluating the impact of the adoption of ASC Update 2017-07 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 June 30		Six months ended June 30	
	2017	2016	2017	2016
	(in thousands)			
Weighted average shares outstanding (basic)	174,597	173,394	174,375	173,363
Impact of common stock equivalents	935	924	1,179	1,004
Weighted average shares outstanding (diluted)	175,532	174,318	175,554	174,367

For the three and six months ended June 30, 2016, 802,000 and 844,000 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 six months ended June 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 June 30, 2017			
Unrealized gain on securities	$15,798	$(5,530)	$10,268
Reclassification adjustment for securities gains included in net income (1)	(1,436)	504	(932)
Amortization of net unrecognized pension and postretirement items (3)	522	(181)	341
Total Other Comprehensive Income	$14,884	$(5,207)	$9,677
Three months ended June 30, 2016			
Unrealized gain on securities	$19,753	$(6,914)	$12,839
Reclassification adjustment for securities gains included in net income (1)	(76)	27	(49)
Amortization of unrealized loss on derivative financial instruments(2)	6	(2)	4
Amortization of net unrecognized pension and postretirement items (3)	49	(17)	32
Total Other Comprehensive Income	$19,732	$(6,906)	$12,826
Six months ended June 30, 2017			
Unrealized gain on securities	$22,374	$(7,833)	$14,541
Reclassification adjustment for securities gains included in net income (1)	(2,542)	891	(1,651)
Amortization of net unrecognized pension and postretirement items (3)	1,051	(367)	684
Total Other Comprehensive Income	$20,883	$(7,309)	$13,574
Six months ended June 30, 2016			
Unrealized gain on securities	$45,946	$(16,081)	$29,865
Reclassification adjustment for securities gains included in net income (1)	(1,023)	358	(665)
Amortization of unrealized loss on derivative financial instruments (2)	12	(4)	8
Amortization of net unrecognized pension and postretirement items (3)	766	(268)	498
Total Other Comprehensive Income	$45,701	$(15,995)	$29,706

(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.

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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-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 June 30, 2017					
Balance at March 31, 2017	$(19,493)	$ 273	$ —	$ (15,332)	$(34,552)
Other comprehensive income before reclassifications	10,268	—	—	—	10,268
Amounts reclassified from accumulated other comprehensive income (loss)	(932)	—	—	341	(591)
Balance at June 30, 2017	$(10,157)	$ 273	$ —	$ (14,991)	$(24,875)
Three months ended June 30, 2016					
Balance at March 31, 2016	$9,911	$ 458	$ (11)	$ (15,495)	$(5,137)
Other comprehensive income before reclassifications	12,839	—	—	—	12,839
Amounts reclassified from accumulated other comprehensive income (loss)	(49)	—	4	32	(13)
Balance at June 30, 2016	$22,701	$ 458	$ (7)	$ (15,463)	$7,689
Six months ended June 30, 2017					
Balance at December 31, 2016	$(23,047)	$ 273	$ —	$ (15,675)	$(38,449)
Other comprehensive income before reclassifications	14,541	—	—	—	14,541
Amounts reclassified from accumulated other comprehensive income (loss)	(1,651)	—	—	684	(967)
Balance at June 30, 2017	$(10,157)	$ 273	$ —	$ (14,991)	$(24,875)
Six months ended June 30, 2016					
Balance at December 31, 2015	$(6,499)	$ 458	$ (15)	$ (15,961)	$(22,017)
Other comprehensive income before reclassifications	29,865	—	—	—	29,865
Amounts reclassified from accumulated other comprehensive income (loss)	(665)	—	8	498	(159)
Balance at June 30, 2016	$22,701	$ 458	$ (7)	$ (15,463)	$7,689

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)			
June 30, 2017				
U.S. Government sponsored agency securities	$5,960	$ 94	$—	$6,054
State and municipal securities	405,035	3,726	(7,125)	401,636
Corporate debt securities	88,887	2,531	(2,426)	88,992
Collateralized mortgage obligations	546,847	1,399	(9,739)	538,507
Residential mortgage-backed securities	1,218,257	5,782	(10,974)	1,213,065
Commercial mortgage-backed securities	121,012	390	(335)	121,067
Auction rate securities	107,410	—	(9,487)	97,923
Total debt securities	2,493,408	13,922	(40,086)	2,467,244
Equity securities	10,487	10,968	—	21,455
Total	$2,503,895	$ 24,890	$(40,086)	$2,488,699

	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 $1.7 billion and $1.8 billion as of June 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 $20.5 million at June 30, 2017 and $23.5 million at December 31, 2016) and other equity investments (estimated fair value of $1.0 million at both June 30, 2017 and December 31, 2016).

As of June 30, 2017, the financial institutions stock portfolio had a cost basis of $9.7 million and an estimated fair value of $20.5 million, including an investment in a single financial institution with a cost basis of $4.3 million and an estimated fair value of $8.8 million. The estimated fair value of this investment accounted for 42.9% 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 June 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	$20,103	$20,336
Due from one year to five years	27,967	28,335
Due from five years to ten years	111,883	113,050
Due after ten years	447,339	432,884
	607,292	594,605
Residential mortgage-backed securities	1,218,257	1,213,065
Commercial mortgage-backed securities	121,012	121,067
Collateralized mortgage obligations	546,847	538,507
Total debt securities	$2,493,408	$2,467,244

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)
Three months ended June 30, 2017	(in thousands)		
Equity securities	$1,305	$ —	$ 1,305
Debt securities	145	(14)	131
Total	$1,450	$ (14)	$ 1,436
Three months ended June 30, 2016			
Equity securities	$4	$ (10)	$ (6)
Debt securities	108	(26)	82
Total	$112	$ (36)	$ 76
Six months ended June 30, 2017			
Equity securities	$2,350	$ —	$ 2,350
Debt securities	206	(14)	192
Total	$2,556	$ (14)	$ 2,542
Six months ended June 30, 2016			
Equity securities	$737	$ (10)	$ 727
Debt securities	322	(26)	296
Total	$1,059	$ (36)	$ 1,023

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 June 30, 2017 and June 30, 2016 was $10.0 million. There were no other-than-temporary impairment charges recognized for the three and six months ended June 30, 2017 and June 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 June 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
June 30, 2017	(in thousands)					
State and municipal securities	$214,497	$(7,125)	$—	$—	$214,497	$(7,125)
Corporate debt securities	4,020	(9)	32,148	(2,417)	36,168	(2,426)
Collateralized mortgage obligations	144,523	(3,057)	231,936	(6,682)	376,459	(9,739)
Residential mortgage-backed securities	896,206	(10,974)	—	—	896,206	(10,974)
Commercial mortgage-backed securities	68,546	(335)	—	—	68,546	(335)
Auction rate securities	—	—	97,923	(9,487)	97,923	(9,487)
Total debt securities	$1,327,792	$(21,500)	$362,007	$(18,586)	$1,689,799	$(40,086)

	Less than 12 months		12 months or longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
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 June 30, 2017.

As of June 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 June 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 as of June 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:

	June 30, 2017		December 31, 2016	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
	(in thousands)			
Single-issuer trust preferred securities	$43,795	$42,478	$43,746	$39,829
Subordinated debt	29,069	29,697	46,231	46,723
Senior debt	12,035	12,407	18,037	18,433
Pooled trust preferred securities	—	422	—	422
Corporate debt securities issued by financial institutions	84,899	85,004	108,014	105,407
Other corporate debt securities	3,988	3,988	4,002	4,002
Available for sale corporate debt securities	$88,887	$88,992	$112,016	$109,409

Single-issuer trust preferred securities had an unrealized loss of $1.3 million at June 30, 2017. Six of the 19 single-issuer trust preferred securities, with an amortized cost of $11.6 million and an estimated fair value of $10.9 million at June 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 June 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 as of June 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:

	June 30, 2017	December 31, 2016
	(in thousands)	
Real-estate - commercial mortgage	$6,262,008	$6,018,582
Commercial - industrial, financial and agricultural	4,245,849	4,087,486
Real-estate - residential mortgage	1,784,712	1,601,994
Real-estate - home equity	1,579,739	1,625,115
Real-estate - construction	938,900	843,649
Consumer	283,156	291,470
Leasing and other	269,787	246,704
Overdrafts	4,435	3,662
Loans, gross of unearned income	15,368,586	14,718,662
Unearned income	(21,969)	(19,390)
Loans, net of unearned income	$15,346,617	$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.

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

	June 30, 2017	December 31, 2016
	(in thousands)	
Allowance for loan losses	$172,342	$ 168,679
Reserve for unfunded lending commitments	2,656	2,646
Allowance for credit losses	$174,998	$ 171,325

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

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
	(in thousands)			
Balance at beginning of period	$172,647	$166,065	$171,325	$171,412
Loans charged off	(8,715)	(10,746)	(18,122)	(21,901)
Recoveries of loans previously charged off	4,366	7,278	10,295	11,556
Net loans charged off	(4,349)	(3,468)	(7,827)	(10,345)
Provision for credit losses	6,700	2,511	11,500	4,041
Balance at end of period	$174,998	$165,108	$174,998	$165,108

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. During the second quarter of 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 June 30, 2017									
Balance at March 31, 2017	$47,373	$ 55,309	$ 23,821	$ 22,018	$ 7,501	$ 3,031	$ 3,268	$ 7,755	$ 170,076
Loans charged off	(242)	(5,353)	(592)	(124)	(774)	(430)	(1,200)	—	(8,715)
Recoveries of loans previously charged off	934	1,974	215	151	373	470	249	—	4,366
Net loans charged off	692	(3,379)	(377)	27	(401)	40	(951)	—	(4,349)
Provision for loan losses (1)	9,307	15,712	(5,988)	(5,606)	2,434	(1,277)	(212)	(7,755)	6,615
Balance at June 30, 2017	$57,372	$ 67,642	$ 17,456	$ 16,439	$ 9,534	$ 1,794	$ 2,105	$ —	$ 172,342
Three months ended June 30, 2016									
Balance at March 31, 2016	$48,311	$ 54,333	$ 22,524	$ 19,928	$ 6,282	$ 2,324	$ 2,974	$ 7,165	$ 163,841
Loans charged off	(1,474)	(4,625)	(1,045)	(340)	(742)	(569)	(1,951)	—	(10,746)
Recoveries of loans previously charged off	1,367	2,931	350	420	1,563	539	108	—	7,278
Net loans charged off	(107)	(1,694)	(695)	80	821	(30)	(1,843)	—	(3,468)
Provision for loan losses (1)	(4,464)	(884)	4,341	1,218	(1,331)	690	1,387	1,216	2,173
Balance at June 30, 2016	$43,740	$ 51,755	$ 26,170	$ 21,226	$ 5,772	$ 2,984	$ 2,518	$ 8,381	$ 162,546
Six months ended June 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	(1,466)	(10,880)	(1,290)	(340)	(1,021)	(1,286)	(1,839)	—	(18,122)
Recoveries of loans previously charged off	1,384	6,165	352	381	921	706	386	—	10,295
Net loans charged off	(82)	(4,715)	(938)	41	(100)	(580)	(1,453)	—	(7,827)
	10,612	18,004	(8,407)	(6,531)	3,179	(1,200)	366	(4,533)	11,490

Provision for loan losses (1)									
Balance at June 30, 2017	$57,372	$ 67,642	$ 17,456	$ 16,439	$ 9,534	$ 1,794	$ 2,105	$ —	$ 172,342
Six months ended June 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	(2,056)	(10,813)	(2,586)	(1,408)	(1,068)	(1,576)	(2,394)	—	(21,901)
Recoveries of loans previously charged off	2,192	5,250	688	556	1,946	735	189	—	11,556
Net loans charged off	136	(5,563)	(1,898)	(852)	878	(841)	(2,205)	—	(10,345)
Provision for loan losses (1)	(4,262)	220	5,663	703	(1,635)	1,240	2,255	(347)	3,837
Balance at June 30, 2016	$43,740	$ 51,755	$ 26,170	$ 21,226	$ 5,772	$ 2,984	$ 2,518	$ 8,381	$ 162,546

(1) The provision for loan losses excluded an $85,000 and a $10,000 increase, respectively, in the reserve for unfunded lending commitments for the three and six months ended June 30, 2017 and a $338,000 and $204,000 increase, respectively, in the reserve for unfunded lending commitments for the three and six months ended June 30, 2016.

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	Total
	(in thousands)								
Allowance for loan losses at June 30, 2017:									
Measured for impairment under FASB ASC Subtopic 450-20	$49,055	$57,341	$7,607	$6,013	$5,370	$1,773	$2,105	$—	$129,264
Evaluated for impairment under FASB ASC Section 310-10-35	8,317	10,301	9,849	10,426	4,164	21	—	N/A	43,078
	$57,372	$67,642	$17,456	$16,439	$9,534	$1,794	$2,105	$—	$172,342
Loans, net of unearned income at June 30, 2017:									
Measured for impairment under FASB ASC Subtopic 450-20	$6,212,998	$4,189,676	$1,557,989	$1,741,404	$921,839	$283,123	$252,253	N/A	$15,159,282
Evaluated for impairment under FASB ASC Section 310-10-35	49,010	56,173	21,750	43,308	17,061	33	—	N/A	187,335
	$6,262,008	$4,245,849	$1,579,739	$1,784,712	$938,900	$283,156	$252,253	N/A	$15,346,617
Allowance for loan losses at June 30, 2016:									
Measured for impairment under FASB ASC Subtopic 450-20	$32,861	$40,945	$17,089	$9,044	$4,004	$2,971	$2,518	$8,381	$117,813
Evaluated for impairment under FASB ASC Section 310-10-35	10,879	10,810	9,081	12,182	1,768	13	—	N/A	44,733
	$43,740	$51,755	$26,170	$21,226	$5,772	$2,984	$2,518	$8,381	$162,546
Loans, net of unearned income at June 30, 2016:									
Measured for impairment under FASB ASC Subtopic 450-20	$5,582,027	$4,057,883	$1,629,443	$1,399,399	$841,193	$278,053	$194,254	N/A	$13,982,252
Evaluated for impairment under	53,320	41,294	17,876	47,893	12,506	18	—	N/A	172,907

FASB ASC Section 310-10-35	$5,635,347	$4,099,177	$1,647,319	$1,447,292	$853,699	$278,071	$194,254	N/A	$14,155,159

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 June 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 June 30, 2017 and 2016, approximately 87% and 89%, 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 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:

	June 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	$25,219	$ 22,396	$ —	$28,757	$ 25,447	$ —
Commercial - secured	43,206	36,036	—	29,296	25,526	—
Real estate - residential mortgage	4,629	4,629	—	4,689	4,689	—
Construction - commercial residential	10,054	8,044	—	6,271	4,795	—
Construction - commercial	598	590	—	—	—	—
	83,706	71,695		69,013	60,457	
With a related allowance recorded:						
Real estate - commercial mortgage	34,131	26,614	8,317	37,132	29,446	10,162
Commercial - secured	23,576	19,479	9,947	27,767	22,626	13,198
Commercial - unsecured	912	658	354	1,122	823	455
Real estate - home equity	25,753	21,750	9,849	23,971	19,205	9,511
Real estate - residential mortgage	45,300	38,679	10,426	48,885	41,359	11,897
Construction - commercial residential	10,479	7,210	3,725	10,103	4,206	1,300
Construction - commercial	186	126	45	681	435	145
Construction - other	1,096	1,091	394	1,096	1,096	423
Consumer - direct	18	18	12	21	21	14
Consumer - indirect	16	15	9	19	19	12
	141,467	115,640				