FULTON FINANCIAL CORP
Form 10-Q
August 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 June 30, 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 –173,060,000 shares outstanding as of July 29, 2016.

FULTON FINANCIAL CORPORATION
FORM 10-Q FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016
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Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

(in thousands, except per-share data)

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Cash and due from banks	$84,647	$101,120
Interest-bearing deposits with other banks	348,232	230,300
Federal Reserve Bank and Federal Home Loan Bank stock	59,854	62,216
Loans held for sale	34,330	16,886
Available for sale investment securities	2,529,724	2,484,773
Loans, net of unearned income	14,155,159	13,838,602
Less: Allowance for loan losses	(162,546)	(169,054)
Net Loans	13,992,613	13,669,548
Premises and equipment	228,861	225,535
Accrued interest receivable	43,316	42,767
Goodwill and intangible assets	531,556	531,556
Other assets	626,902	550,017
Total Assets	$18,480,035	$17,914,718
LIABILITIES		
Deposits:		
Noninterest-bearing	$4,125,375	$3,948,114
Interest-bearing	10,167,189	10,184,203
Total Deposits	14,292,564	14,132,317
Short-term borrowings:		
Federal funds purchased	449,184	197,235
Other short-term borrowings	273,030	300,428
Total Short-Term Borrowings	722,214	497,663
Accrued interest payable	8,336	10,724
Other liabilities	384,372	282,578
Federal Home Loan Bank advances and long-term debt	965,552	949,542
Total Liabilities	16,373,038	15,872,824
SHAREHOLDERS' EQUITY		
Common stock, $2.50 par value, 600 million shares authorized, 219.0 million shares issued in 2016 and 218.9 million shares issued in 2015	547,530	547,141
Additional paid-in capital	1,455,351	1,450,690
Retained earnings	686,635	641,588
Accumulated other comprehensive income (loss)	7,689	(22,017)
Treasury stock, at cost, 45.9 million shares in 2016 and 44.7 million shares in 2015	(590,208)	(575,508)
Total Shareholders' Equity	2,106,997	2,041,894
Total Liabilities and Shareholders' Equity	$18,480,035	$17,914,718

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	
	2016	2015	2016	2015
INTEREST INCOME				
Loans, including fees	$134,643	$129,910	$268,722	$259,687
Investment securities:				
Taxable	11,159	10,944	23,162	22,226
Tax-exempt	2,320	1,881	4,360	3,968
Dividends	135	296	295	644
Loans held for sale	188	265	319	438
Other interest income	864	933	1,762	3,038
Total Interest Income	149,309	144,229	298,620	290,001
INTEREST EXPENSE				
Deposits	10,887	10,053	21,614	19,876
Short-term borrowings	217	103	485	180
Long-term debt	9,289	11,153	18,551	23,444
Total Interest Expense	20,393	21,309	40,650	43,500
Net Interest Income	128,916	122,920	257,970	246,501
Provision for credit losses	2,511	2,200	4,041	(1,500)
Net Interest Income After Provision for Credit Losses	126,405	120,720	253,929	248,001
NON-INTEREST INCOME				
Other service charges and fees	12,983	10,988	23,733	20,351
Service charges on deposit accounts	12,896	12,637	25,454	24,206
Investment management and trust services	11,247	11,011	22,235	21,900
Mortgage banking income	3,897	5,339	7,927	10,027
Investment securities gains, net	76	2,415	1,023	6,560
Other	5,038	4,099	8,902	8,182
Total Non-Interest Income	46,137	46,489	89,274	91,226
NON-INTEREST EXPENSE				
Salaries and employee benefits	70,029	65,067	139,401	130,057
Net occupancy expense	11,811	11,809	24,031	25,501
Other outside services	5,508	8,125	11,564	13,875
Data processing	5,476	4,894	10,876	9,662
Software	3,953	3,376	7,874	6,694
Professional fees	3,353	2,731	5,686	5,602
FDIC insurance expense	2,960	2,885	5,909	5,707
Equipment expense	2,872	3,335	6,243	7,293
Supplies and postage	2,706	2,726	5,285	5,095
Marketing	1,916	2,235	3,540	3,468
Telecommunications	1,459	1,617	2,947	3,333
Operating risk loss	986	674	1,526	1,501
Other real estate owned and repossession expense	365	129	1,003	1,491
Intangible amortization	—	106	—	236
Other	8,243	8,645	16,165	17,317
Total Non-Interest Expense	121,637	118,354	242,050	236,832
Income Before Income Taxes	50,905	48,855	101,153	102,395
Income taxes	11,155	12,175	23,146	25,679

Net Income	$39,750	$36,680	$78,007	$76,716
PER SHARE:				
Net Income (Basic)	$0.23	$0.21	$0.45	$0.43
Net Income (Diluted)	0.23	0.21	0.45	0.43
Cash Dividends	0.10	0.09	0.19	0.18

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in thousands)

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
Net Income	$39,750	$36,680	$78,007	$76,716
Other Comprehensive Income (Loss), net of tax:				
Unrealized gain (loss) on securities	12,839	(12,008)	29,865	(2,016)
Reclassification adjustment for securities gains included in net income	(49)	(1,569)	(665)	(4,264)
Non-credit related unrealized gain on other-than-temporarily impaired debt securities	—	—	—	125
Amortization of unrealized loss on derivative financial instruments	4	34	8	68
Amortization of net unrecognized pension and postretirement items	32	466	498	932
Other Comprehensive Income (Loss)	12,826	(13,077)	29,706	(5,155)
Total Comprehensive Income	$52,576	$23,603	$107,713	$71,561

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 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				78,007			78,007
Other comprehensive income					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
Balance at December 31, 2014	178,924	$545,555	$1,420,523	$558,810	$ (17,722)	$(510,501)	$1,996,665
Net income				76,716			76,716
Other comprehensive loss					(5,155)		(5,155)
Stock issued, including related tax benefits	423	664	1,954			2,077	4,695
Stock-based compensation awards			2,838				2,838
Acquisition of treasury stock	(1,538)					(19,013)	(19,013)
Settlement of accelerated stock repurchase agreement	(1,790)		20,000			(20,000)	—
Common stock cash dividends - $0.18 per share				(31,929)			(31,929)
Balance at June 30, 2015	176,019	$546,219	$1,445,315	$603,597	$ (22,877)	$(547,437)	$2,024,817

See Notes to Consolidated Financial Statements

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in thousands)

	Six months ended June 30	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$78,007	$76,716
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	4,041	(1,500)
Depreciation and amortization of premises and equipment	13,804	13,920
Net amortization of investment securities premiums	4,647	3,288
Investment securities gains, net	(1,023)	(6,560)
Gain on sales of mortgage loans held for sale	(7,110)	(7,961)
Proceeds from sales of mortgage loans held for sale	304,516	406,703
Originations of mortgage loans held for sale	(314,850)	(415,200)
Amortization of intangible assets	—	236
Amortization of issuance costs on long-term debt	193	279
Stock-based compensation	3,256	2,838
Excess tax benefits from stock-based compensation	(28)	(63)
(Increase) decrease in accrued interest receivable	(549)	625
(Increase) decrease in other assets	(18,268)	10,181
Decrease in accrued interest payable	(2,388)	(2,873)
Increase (decrease) in other liabilities	9,866	(3,322)
Total adjustments	(3,893)	591
Net cash provided by operating activities	74,114	77,307
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available for sale	84,972	18,815
Proceeds from maturities of securities available for sale	282,832	205,620
Purchase of securities available for sale	(355,220)	(346,322)
(Increase) decrease in short-term investments	(115,570)	35,759
Net increase in loans	(326,902)	(147,492)
Net purchases of premises and equipment	(17,130)	(14,687)
Net cash used in investing activities	(447,018)	(248,307)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand and savings deposits	202,552	205,901
Net decrease in time deposits	(42,305)	(67,698)
Increase in short-term borrowings	224,551	79,316
Additions to long-term debt	16,000	148,099
Repayments of long-term debt	(183)	(155,150)
Net proceeds from issuance of common stock	3,320	4,632
Excess tax benefits from stock-based compensation	28	63
Dividends paid	(31,278)	(30,397)
Acquisition of treasury stock	(16,254)	(19,013)
Net cash provided by financing activities	356,431	165,753
Net Decrease in Cash and Due From Banks	(16,473)	(5,247)
Cash and Due From Banks at Beginning of Period	101,120	105,702
Cash and Due From Banks at End of Period	$84,647	$100,455
Supplemental Disclosures of Cash Flow Information:		

Cash paid during the period for:		
Interest	$43,038	$46,373
Income taxes	9,087	11,051

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 and six months ended June 30, 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 Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("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 the first half of 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. 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.

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 (current practice). ASC Update 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019. Early adoption is permitted. For the Corporation, this standards update is 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.

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 June 30		Six months ended June 30	
	2016	2015	2016	2015
	(in thousands)			
Weighted average shares outstanding (basic)	173,394	176,433	173,363	177,446
Impact of common stock equivalents	924	1,098	1,004	1,042
Weighted average shares outstanding (diluted)	174,318	177,531	174,367	178,488

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. For the three and six months ended June 30, 2015, 1.8 million and 2.0 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 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
Three months ended June 30, 2015			
Unrealized loss on securities	$(18,474)	$6,466	$(12,008)
Reclassification adjustment for securities gains included in net income [1]	(2,413)	844	(1,569)
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 Loss	$(20,118)	$7,041	$(13,077)
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
Six months ended June 30, 2015			
Unrealized loss on securities	$(3,103)	$1,087	$(2,016)
Reclassification adjustment for securities gains included in net income [1]	(6,558)	2,294	(4,264)
Non-credit related unrealized gains on other-than-temporarily impaired debt securities	192	(67)	125
Amortization of unrealized loss on derivative financial instruments [2]	104	(36)	68
Amortization of net unrecognized pension and postretirement items [3]	1,434	(502)	932
Total Other Comprehensive Loss	$(7,931)	$2,776	$(5,155)

(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 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
Three months ended June 30, 2015					
Balance at March 31, 2015	$14,311	$ 440	$ (2,512)	$ (22,039)	$(9,800)
Other comprehensive income before reclassifications	(12,008)	—	—	—	(12,008)
Amounts reclassified from accumulated other comprehensive income (loss)	(1,473)	(96)	34	466	(1,069)
Balance at June 30, 2015	$830	$ 344	$ (2,478)	$ (21,573)	$(22,877)
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
Six months ended June 30, 2015					
Balance at December 31, 2014	$5,980	$ 1,349	$ (2,546)	$ (22,505)	$(17,722)
Other comprehensive income before reclassifications	(2,016)	125	—	—	(1,891)
Amounts reclassified from accumulated other comprehensive income (loss)	(3,134)	(1,130)	68	932	(3,264)
Balance at June 30, 2015	$830	$ 344	$ (2,478)	$ (21,573)	$(22,877)

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, 2016				
U.S. Government sponsored agency securities	$143	$ 3	$—	$146
State and municipal securities	333,246	12,101	—	345,347
Corporate debt securities	95,419	3,001	(6,873)	91,547
Collateralized mortgage obligations	701,853	5,951	(1,458)	706,346
Mortgage-backed securities	1,242,267	25,501	(5)	1,267,763
Auction rate securities	106,949	—	(9,063)	97,886
Total debt securities	2,479,877	46,557	(17,399)	2,509,035
Equity securities	14,210	6,493	(14)	20,689
Total	$2,494,087	$ 53,050	$(17,413)	$2,529,724

	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 $1.7 billion as of June 30, 2016 and 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 $19.8 million at June 30, 2016 and $20.6 million at December 31, 2015) and other equity investments (estimated fair value of $895,000 at June 30, 2016 and $914,000 at December 31, 2015).

As of June 30, 2016, the financial institutions stock portfolio had a cost basis of $13.4 million and an estimated fair value of $19.8 million, including an investment in a single financial institution with a cost basis of $7.4 million and an estimated fair value of $10.4 million. The estimated fair value of this investment accounted for 52.5% 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, 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	$55,965	$56,628
Due from one year to five years	44,833	46,408
Due from five years to ten years	94,787	97,933
Due after ten years	340,172	333,957
	535,757	534,926
Collateralized mortgage obligations	701,853	706,346
Mortgage-backed securities	1,242,267	1,267,763
Total debt securities	$2,479,877	$2,509,035

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, 2016	(in thousands)		
Equity securities	$4	$ (10)	$ (6)
Debt securities	108	(26)	82
Total	$112	$ (36)	$ 76
Three months ended June 30, 2015			
Equity securities	$2,290	$ —	$ 2,290
Debt securities	125	—	125
Total	$2,415	$ —	$ 2,415
Six months ended June 30, 2016			
Equity securities	$737	$ (10)	$ 727
Debt securities	322	(26)	296
Total	$1,059	$ (36)	$ 1,023
Six months ended June 30, 2015			
Equity securities	$4,260	$ —	$ 4,260
Debt securities	2,300	—	2,300
Total	$6,560	$ —	$ 6,560

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 June 30, 2016 and 2015:

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
	(in thousands)			
Balance of cumulative credit losses on debt securities, beginning of period	$(11,510)	$(12,302)	$(11,510)	$(16,242)
Reductions for securities sold during the period	—	792	—	4,730
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)	$(11,510)	$(11,510)	$(11,510)

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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, 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)					
Corporate debt securities	$—	$ —	$32,186	$(6,873)	$32,186	$(6,873)
Collateralized mortgage obligations	21,695	(17)	292,954	(1,441)	314,649	(1,458)
Mortgage-backed securities	—	—	11,569	(5)	11,569	(5)
Auction rate securities	—	—	97,886	(9,063)	97,886	(9,063)
Total debt securities	21,695	(17)	434,595	(17,382)	456,290	(17,399)
Equity securities	681	(14)	—	—	681	(14)
	$22,376	$ (31)	$434,595	$(17,382)	$456,971	$(17,413)

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 June 30, 2016.

As of June 30, 2016, 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, 2016, all ARCs were current and making scheduled interest payments. Based on management’s evaluations, ARCs with an estimated fair value of $97.9 million were not subject to any other-than-temporary impairment charges as of June 30, 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 June 30, 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:

	June 30, 2016		December 31, 2015	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
	(in thousands)			
Single-issuer trust preferred securities	$43,697	$ 37,461	$44,648	$ 39,106
Subordinated debt	29,662	30,708	39,610	40,779
Senior debt	18,040	18,652	12,043	12,329
Pooled trust preferred securities	—	706	—	706
Corporate debt securities issued by financial institutions	91,399	87,527	96,301	92,920
Other corporate debt securities	4,020	4,020	4,035	4,035
Available for sale corporate debt securities	$95,419	$ 91,547	$100,336	$ 96,955

Single-issuer trust preferred securities had an unrealized loss of $6.2 million at June 30, 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 $9.5 million at June 30, 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 June 30, 2016 were not rated by any ratings agency.

Based on management’s evaluations, corporate debt securities with a fair value of $91.5 million were not subject to any other-than-temporary impairment charges as of June 30, 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:

	June 30, 2016	December 31, 2015
	(in thousands)	
Real-estate - commercial mortgage	$5,635,347	$5,462,330
Commercial - industrial, financial and agricultural	4,099,177	4,088,962
Real-estate - home equity	1,647,319	1,684,439
Real-estate - residential mortgage	1,447,292	1,376,160
Real-estate - construction	853,699	799,988
Consumer	278,071	268,588
Leasing and other	208,602	170,914
Overdrafts	3,214	2,737
Loans, gross of unearned income	14,172,721	13,854,118
Unearned income	(17,562)	(15,516)
Loans, net of unearned income	$14,155,159	$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:

	June 30, 2016	December 31, 2015
	(in thousands)	
Allowance for loan losses	$162,546	$ 169,054
Reserve for unfunded lending commitments	2,562	2,358

Allowance for credit losses	$165,108	$ 171,412

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
	(in thousands)			
Balance at beginning of period	$166,065	$179,658	$171,412	$185,931
Loans charged off	(10,746)	(15,372)	(21,901)	(21,136)
Recoveries of loans previously charged off	7,278	2,967	11,556	6,158
Net loans charged off	(3,468)	(12,405)	(10,345)	(14,978)
Provision for credit losses	2,511	2,200	4,041	(1,500)
Balance at end of period	$165,108	$169,453	$165,108	$169,453

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, 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
Three months ended June 30, 2015									
Balance at March 31, 2015	$52,860	$57,150	$23,481	$23,235	$8,487	$2,527	$1,653	$8,308	$177,701
Loans charged off	(1,642)	(11,166)	(870)	(783)	(87)	(357)	(467)	—	(15,372)
Recoveries of loans previously charged off	451	1,471	189	187	231	368	70	—	2,967
Net loans charged off	(1,191)	(9,695)	(681)	(596)	144	11	(397)	—	(12,405)
Provision for loan losses (1)	(989)	1,715	(294)	148	(882)	70	359	2,062	2,189
Balance at June 30, 2015	$50,680	$49,170	$22,506	$22,787	$7,749	$2,608	$1,615	$10,370	$167,485

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
Six months ended June 30, 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	(2,351)	(13,029)	(1,638)	(2,064)	(87)	(1,137)	(830)	—	(21,136)
Recoveries of loans previously charged off	887	2,257	440	346	1,378	609	241	—	6,158
Net loans charged off	(1,464)	(10,772)	(1,198)	(1,718)	1,291	(528)	(589)	—	(14,978)
Provision for loan losses (1)	(1,349)	8,564	(4,567)	(4,567)	(3,298)	121	405	3,010	(1,681)
Balance at June 30, 2015	$50,680	$ 49,170	$ 22,506	$ 22,787	$ 7,749	$ 2,608	$ 1,615	$ 10,370	$ 167,485

(1) The provision for loan losses excluded 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 and an $11,000 and $181,000 increase, respectively, in the reserve for unfunded lending commitments for the three and six months ended June 30, 2015. The total provision for credit losses, comprised of allocations for both funded and unfunded loans, was $2.5 million and $4.0 million for the three and six months ended June 30, 2016, respectively, and $2.2 million and a negative $1.5 million for the three and six months ended June 30, 2015.

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 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 FASB ASC Section 310-10-35	53,320	41,294	17,876	47,893	12,506	18	—	N/A	172,907
	$5,635,347	$4,099,177	$1,647,319	$1,447,292	$853,699	$278,071	$194,254	N/A	$14,155,159
Allowance for loan losses at June 30, 2015:									
Measured for impairment under FASB ASC Subtopic 450-20	$37,228	$38,090	$15,838	$8,763	$5,430	$2,588	$1,615	$10,370	$119,922
Evaluated for impairment under FASB ASC Section 310-10-35	13,452	11,080	6,668	14,024	2,319	20	—	N/A	47,563
	$50,680	$49,170	$22,506	$22,787	$7,749	$2,608	$1,615	$10,370	$167,485
Loans, net of unearned income at June 30, 2015:									
Measured for impairment under FASB ASC Subtopic 450-20	$5,172,333	$3,764,999	$1,676,410	$1,315,908	$712,975	$272,463	$136,521	N/A	$13,051,609
Evaluated for impairment under	65,467	41,700	13,278	53,195	18,950	31	—	N/A	192,621

FASB ASC Section 310-10-35	$5,237,800	$3,806,699	$1,689,688	$1,369,103	$731,925	$272,494	$136,521	N/A	$13,244,230

(1) The unallocated allowance, which was approximately 5% and 6% of the total allowance for credit losses, respectively, as of June 30, 2016 and 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 $2.5 million provision for credit losses during the three months ended June 30, 2016, compared to a $2.2 million 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 June 30, 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 June 30, 2016 and 2015, approximately 89% and 72%, 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:

	June 30, 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	$25,452	$ 22,501	$ —	$27,872	$ 22,596	$ —
Commercial - secured	21,458	18,137	—	18,012	13,702	—
Real estate - residential mortgage	6,353	6,171	—	4,790	4,790	—
Construction - commercial residential	7,743	6,543	—	9,916	8,865	—
	61,006	53,352		60,590	49,953	
With a related allowance recorded:						
Real estate - commercial mortgage	41,420	30,819	10,879	45,189	35,698	12,471
Commercial - secured	27,349	22,183	10,230	39,659	33,629	14,085
Commercial - unsecured	1,182	974	580	971	821	498
Real estate - home equity	22,944	17,876	9,081	20,347	15,766	7,993
Real estate - residential mortgage	49,976	41,722	12,182	55,242	45,635	13,422
Construction - commercial residential	8,610	5,043	1,447	9,949	6,290	2,110
Construction - commercial	731	504	166	820	638	217
Construction - other	416	416	155	331	193	68
Consumer - direct	18	18	13	19	19	14
Consumer - indirect	—	—	—	14	14	8
Leasing, other and overdrafts	—	—	—	1,658	1,425	704
	152,646	119,555	44,733	174,199	140,128	51,590
Total	$213,652	$ 172,907	$ 44,733	$234,789	$ 190,081	$ 51,590

As of June 30, 2016 and December 31, 2015, there were $53.4 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 June 30				Six months ended June 30			
	2016		2015		2016		2015	
	Average Recorded Investment	Interest Income (1)	Average Recorded Investment	Interest Income (1)	Average Recorded Investment	Interest Income (1)	Average Recorded Investment	Interest Income (1)
	(in thousands)							
With no related allowance recorded:								
Real estate - commercial mortgage	$22,762	$ 72	$27,410	$ 87	$22,707	$141	$26,018	178
Commercial - secured	15,182	20	16,163	24	14,688	36	15,636	45
Real estate - residential mortgage	6,191	33	5,541	32	5,724	63	5,318	60
Construction - commercial residential	6,421	16	12,171	40	7,236	35	13,048	95
Construction - commercial	—	—	925	—	—	—	1,144	—
	50,556	141	62,210	183	50,355	275	61,164	378
With a related allowance recorded:								
Real estate - commercial mortgage	33,042	104	40,204	126	33,927	212	40,143	259
Commercial - secured	25,919	33	25,902	38	28,489	71	23,713	74
Commercial - unsecured	929	1	2,082	2	893	2	1,751	3
Real estate - home equity	17,950	70	13,016	33	17,222	127	13,163	64
Real estate - residential mortgage	41,928	226	47,020	270	43,164	461	46,839	543
Construction - commercial residential	5,566	14	6,031	21	5,807	29	6,655	49
Construction - commercial	548	—	960	—	578	—	981	—
Construction - other	513	—	281	—	406	—	281	—
Consumer - direct	10	—	17	—	16	—	18	—
Consumer - indirect	15	—	17	—	11	—	17	—
Leasing, other and overdrafts	711	—	—	—	949	—	—	—
	127,131	448	135,530	490	131,462	902	133,561	992
Total	$177,687	$ 589	$197,740	$ 673	$181,817	$1,177	$194,725	1,370

(1) All impaired loans, excluding accruing TDRs, were non-accrual loans. Interest income recognized for the three and six months ended June 30, 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	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
	(dollars in thousands)							
Real estate - commercial mortgage	$5,371,366	$5,204,263	$141,417	$102,625	$122,564	$155,442	$5,635,347	$5,462,330
Commercial - secured	3,718,231	3,696,692	95,330	92,711	130,180	136,710	3,943,741	3,926,113
Commercial - unsecured	149,548	156,742	2,467	2,761	3,421	3,346	155,436	162,849
Total commercial -	3,867,779	3,853,434	97,797	95,472	133,601	140,056	4,099,177	4,088,962

industrial, financial and agricultural								
Construction - commercial residential	151,817	140,337	17,012	17,154	14,838	21,812	183,667	179,303
Construction - commercial	596,971	552,710	2,548	3,684	4,594	3,597	604,113	559,991
Total construction (excluding Construction - other)	748,788	693,047	19,560	20,838	19,432	25,409	787,780	739,294
	$9,987,933	$9,750,744	$258,774	$218,935	$275,597	$320,907	$10,522,304	$10,290,586
% of Total	94.9 %	94.8 %	2.5 %	2.1 %	2.6 %	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. The Corporation's loan review officers provide an independent assessment of risk rating accuracy. Ratings may be changed based on the ongoing monitoring procedures performed by loan officers or credit administration staff, or if specific loan review activities identify a deterioration or an improvement in the loan.

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

The following table presents a summary of performing, 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	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
	(dollars in thousands)							
Real estate - home equity	$1,623,095	$1,660,773	$10,051	$8,983	$14,173	$14,683	$1,647,319	$1,684,439
Real estate - residential mortgage	1,408,244	1,329,371	14,018	18,305	25,030	28,484	1,447,292	1,376,160
Construction - other	63,404	59,997	1,416	88	1,099	609	65,919	60,694
Consumer - direct	92,906	94,262	1,860	2,254	1,695	2,203	96,461	98,719
Consumer - indirect	179,293	166,823	2,124	2,809	193	237	181,610	169,869
Total consumer	272,199	261,085	3,984	5,063	1,888	2,440	278,071	268,588
Leasing, other and overdrafts	193,233	155,870	863	759	158	1,506	194,254	158,135
	$3,560,175	$3,467,096	$30,332	$33,198	$42,348	$47,722	$3,632,855	$3,548,016
% of Total	98.0 %	97.7 %	0.8 %	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:

	June 30, 2016	December 31, 2015
	(in thousands)	
Non-accrual loans	$111,742	$ 129,523
Loans 90 days or more past due and still accruing	15,992	15,291
Total non-performing loans	127,734	144,814
Other real estate owned (OREO)	11,918	11,099
Total non-performing assets	$139,652	$ 155,913

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

	June 30, 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	$7,813	$2,288	$192	$35,512	$35,704	$45,805	$5,589,542	$5,635,347
Commercial - secured	4,532	7,207	2,997	34,675	37,672	49,411	3,894,330	3,943,741
Commercial - unsecured	372	43	367	863	1,230	1,645	153,791	155,436
Total commercial - industrial, financial and agricultural	4,904	7,250	3,364	35,538	38,902	51,056	4,048,121	4,099,177
Real estate - home equity	7,600	2,451	3,470	10,703	14,173	24,224	1,623,095	1,647,319
Real estate - residential mortgage	10,356	3,662	4,461	20,569	25,030	39,048	1,408,244	1,447,292
Construction - commercial residential	—	541	—	8,499	8,499	9,040	174,627	183,667
Construction - commercial	1,482	1,134	1,777	504	2,281	4,897	599,216	604,113
Construction - other	1,416	—	682	417	1,099	2,515	63,404	65,919
Total real estate - construction	2,898	1,675	2,459	9,420	11,879	16,452	837,247	853,699
Consumer - direct	1,169	691	1,695	—	1,695	3,555	92,906	96,461
Consumer - indirect	1,734	390	193	—	193	2,317	179,293	181,610
Total consumer	2,903	1,081	1,888	—	1,888	5,872	272,199	278,071
Leasing, other and overdrafts	400	463	158	—	158	1,021	193,233	194,254
Total	$36,874	$18,870	$15,992	$111,742	$127,734	$183,478	$13,971,681	$14,155,159

	December 31, 2015							
	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	$6,469	$1,312	$439	$40,731	$41,170	$48,951	$5,413,379	$5,462,330
Commercial - secured	5,654	2,615	1,853	41,498	43,351	51,620	3,874,493	3,926,113
Commercial - unsecured	510	83	19	701	720	1,313	161,536	162,849
Total commercial - industrial, financial and agricultural	6,164	2,698	1,872	42,199	44,071	52,933	4,036,029	4,088,962
Real estate - home equity	6,438	2,545	3,473	11,210	14,683	23,666	1,660,773	1,684,439
Real estate - residential mortgage	15,141	3,164	6,570	21,914	28,484	46,789	1,329,371	1,376,160
Construction - commercial residential	1,366	494	—	11,213	11,213	13,073	166,230	179,303
Construction - commercial	50	176	—	638	638	864	559,127	559,991
Construction - other	88	—	416	193	609	697	59,997	60,694
Total real estate - construction	1,504	670	416	12,044	12,460	14,634	785,354	799,988
Consumer - direct	1,687	567	2,203	—	2,203	4,457	94,262	98,719
Consumer - indirect	2,308	501	237	—	237	3,046	166,823	169,869
Total consumer	3,995	1,068	2,440	—	2,440	7,503	261,085	268,588

Leasing, other and overdrafts	483	276	81	1,425	1,506	2,265	155,870	158,135
Total	$40,194	$11,733	$15,291	$129,523	$144,814	$196,741	$13,641,861	$13,838,602

The following table presents TDRs, by class segment:

	June 30, 2016	December 31, 2015
	(in thousands)	
Real-estate - residential mortgage	$27,324	$ 28,511
Real-estate - commercial mortgage	17,808	17,563
Commercial - secured	5,645	5,833
Construction - commercial residential	3,086	3,942
Real estate - home equity	7,173	4,556
Commercial - unsecured	111	120
Consumer - indirect	—	14
Consumer - direct	18	19
Total accruing TDRs	61,165	60,558
Non-accrual TDRs (1)	24,887	31,035
Total TDRs	$86,052	$ 91,593

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

As of June 30, 2016 and December 31, 2015, there were $3.8 million and $5.3 million, respectively, of commitments to lend additional funds to borrowers whose loans were modified under TDRs.

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The following table presents TDRs, by class segment as of June 30, 2016 and 2015, that were modified during the three and six months ended June 30, 2016 and 2015:

	Three months ended June 30				Six months ended June 30			
	2016		2015		2016		2015	
	Number of Loans	Post-Modification Recorded Investment	Number of Loans	Post-Modification Recorded Investment	Number of Loans	Post-Modification Recorded Investment	Number of Loans	Post-Modification Recorded Investment
	(dollars in thousands)							
Commercial – secured:								
Extend maturity without rate concession	4	$ 1,146	3	$ 1,047	6	$ 1,976	11	$ 7,823
Commercial – unsecured:								
Extend maturity without rate concession	—	—	—	—	2	103	1	42
Real estate - commercial mortgage:								
Extend maturity without rate concession	—	—	1	132	—	—	4	2,627
Real estate - home equity:								
Extend maturity with rate concession	—	—	—	—	1	44	—	—
Bankruptcy	23	969	15	739	60	3,667	25	1,231
Real estate – residential mortgage:								
Extend maturity with rate concession	—	—	—	—	—	—	1	104
Extend maturity without rate concession	2	315	—	—	2	315	2	225
Bankruptcy	1	373	4	456	1	373	5	737
Construction - commercial residential:								
Extend maturity without rate concession	—	—	—	—	—	—	1	889
Consumer - direct:								
Bankruptcy	—	—	—	—	1	2	—	—
Consumer - indirect:								
Bankruptcy	—	—	—	—	—	—	1	13
Total	30	$ 2,803	23	$ 2,374	73	$ 6,480	51	$ 13,691

The following table presents TDRs, by class segment, as of June 30, 2016 and 2015, that were modified in the previous 12 months and had a post-modification payment default during the six months ended June 30, 2016 and 2015. The Corporation defines a payment default as a single missed payment.

	2016		2015	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(dollars in thousands)			
Real estate - home equity	22	$ 1,448	7	$ 614
Real estate - residential mortgage	5	972	6	652
Commercial - secured	4	1,096	8	4,779

Real estate - commercial mortgage	2	132	2	191
Commercial - unsecured	1	27	—	—
Total	34	$ 3,675	23	$ 6,236

NOTE 6 – Mortgage Servicing Rights

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
	(in thousands)			
Amortized cost:				
Balance at beginning of period	$40,195	$41,803	$40,944	$42,148
Originations of mortgage servicing rights	1,508	1,956	2,428	3,513
Amortization	(1,829)	(2,161)	(3,498)	(4,063)
Balance at end of period	$39,874	$41,598	$39,874	$41,598
Valuation allowance:				
Balance at beginning of period	$—	$—	$—	$—
Additions	(1,721)	—	(1,721)	—
Balance at end of period	$(1,721)	$—	$(1,721)	$—
Net MSRs at end of period	$38,153	$41,598	$38,153	$41,598

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

The fair value of MSRs is estimated by discounting the estimated cash flows from servicing income, net of expense, over the expected life of the underlying loans at a discount rate commensurate with the risk associated with these assets. Expected life is based on the contractual terms of the loans, as adjusted for prepayment projections. Based on its fair value analysis, the Corporation determined that an addition to the valuation allowance of $1.7 million was necessary as of June 30, 2016. No valuation allowance was necessary as of June 30, 2015.

NOTE 7 – Stock-Based Compensation

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

The Corporation also grants equity awards to non-employee members of its board of directors under the 2011 Directors’ Equity Participation Plan ("Directors’ Plan"). Under the Directors’ Plan, the Corporation can grant equity awards to non-employee holding company and subsidiary bank directors in the form of stock options, restricted stock or common stock.

Equity awards issued under the Employee Equity Plan are generally granted annually and become fully vested over or after a three-year vesting period. The vesting period for non-performance-based awards represents the period during

which employees are required to provide service in exchange for such awards. Equity awards under the Directors' Plan generally vest immediately upon grant. Certain events, as defined in the Employee Equity Plan and the Directors' Plan, result in the acceleration of the vesting of equity awards.

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
	(in thousands)			
Stock-based compensation expense	$1,820	$1,767	$3,256	$2,838
Tax benefit	(642)	(622)	(1,075)	(914)
Stock-based compensation expense, net of tax	$1,178	$1,145	$2,181	$1,924

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

As of June 30, 2016, the Employee Equity Plan had 11.5 million shares reserved for future grants through 2023, and the Directors' Plan had approximately 384,000 shares reserved for future grants through 2021. On May 1, 2016, the Corporation granted approximately 356,000 PSUs and 163,000 RSUs under the Employee Equity Plan. On June 1, 2016, the Corporation granted approximately 12,000 shares of common stock to its directors. Total expense of $175,000 was recognized in other expense for this grant.

NOTE 8 – Employee Benefit Plans

The Corporation maintains a defined benefit pension plan ("Pension Plan") for certain employees, which was curtailed in 2008. Contributions to the Pension Plan are actuarially determined and funded annually, if required. Pension Plan assets are invested in: money markets; fixed income securities, including corporate bonds, U.S. Treasury securities and common trust funds; and equity securities, including common stocks and common stock mutual funds.

The net periodic benefit cost for the Corporation's Pension Plan consisted of the following components:

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
	(in thousands)			
Service cost [1]	$194	$145	$344	$290
Interest cost	879	851	1,760	1,702
Expected return on plan assets	(433)	(752)	(1,159)	(1,504)
Net amortization and deferral	428	782	1,210	1,564
Net periodic benefit cost	$1,068	$1,026	$2,155	$2,052

(1) Service cost was related to administrative costs associated with the plan and was not due to the accrual of additional participant benefits.

The Corporation provides benefits under a postretirement benefits plan ("Postretirement Plan") to certain retirees who were employees of the Corporation prior to January 1, 1998 and retired from employment with the Corporation prior to February 1, 2014.

The net periodic cost (benefit) of the Corporation’s Postretirement Plan consisted of the following components:

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
	(in thousands)			
Interest cost	5	52	43	104
Expected return on plan assets	(1)	—	(1)	—
Net accretion and deferral	(210)	(65)	(275)	(130)
Net periodic benefit	$(206)	$(13)	$(233)	$(26)

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

NOTE 9 – Derivative Financial Instruments

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

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

Mortgage Banking Derivatives

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

Interest Rate Swaps

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

Foreign Exchange Contracts

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

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

	June 30, 2016		December 31, 2015	
	Notional Amount	Asset (Liability) Fair Value	Notional Amount	Asset (Liability) Fair Value
	(in thousands)			
Interest Rate Locks with Customers				
Positive fair values	$159,646	$ 3,023	$87,781	$ 1,291
Negative fair values	414	(4)	267	(16)
Net interest rate locks with customers		3,019		1,275
Forward Commitments				
Positive fair values	—	—	69,045	205
Negative fair values	137,811	(1,831)	16,193	(24)
Net forward commitments		(1,831)		181
Interest Rate Swaps with Customers				
Positive fair values	1,098,942	82,874	846,490	32,915
Negative fair values	8,000	(14)	8,757	(55)
Net interest rate swaps with customers		82,860		32,860
Interest Rate Swaps with Dealer Counterparties				
Positive fair values	8,000	14	8,757	55
Negative fair values	1,098,942	(82,874)	846,490	(32,915)
Net interest rate swaps with dealer counterparties		(82,860)		(32,860)
Foreign Exchange Contracts with Customers				
Positive fair values	11,577	479	4,897	114
Negative fair values	6,268	(94)	8,050	(184)
Net foreign exchange contracts with customers		385		(70)
Foreign Exchange Contracts with Correspondent Banks				
Positive fair values	9,595	377	9,728	428
Negative fair values	15,231	(443)	6,899	(147)
Net foreign exchange contracts with correspondent banks		(66)		281
Net derivative fair value asset		$ 1,507		$ 1,667

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

	Three months ended June 30		Six months ended June 30	
	2016	2015	2016	2015
	(in thousands)			
Interest rate locks with customers	$512	$(1,287)	$1,744	$(165)
Forward commitments	(906)	2,291	(2,012)	2,845
Interest rate swaps with customers	20,569	(9,839)	50,000	(435)
Interest rate swaps with dealer counterparties	(20,569)	9,839	(50,000)	435
Foreign exchange contracts with customers	81	(748)	455	(181)
Foreign exchange contracts with correspondent banks	(68)	711	(347)	387
Net fair value gains (losses) on derivative financial instruments	$(381)	$967	$(160)	$2,886

Fair Value Option

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

mortgage loans held for sale at fair value to more accurately reflect the financial results of its mortgage banking activities in its consolidated financial statements. Derivative financial instruments related to these activities are also recorded at fair value, as noted above. The Corporation

determines fair value for its mortgage loans held for sale based on the price that secondary market investors would pay for loans with similar characteristics, including interest rate and term, as of the date fair value is measured. Changes in fair values during the period are recorded as components of mortgage banking income on the consolidated statements of income. Interest income earned on mortgage loans held for sale is classified in interest income on the consolidated statements of income.

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

	June 30, 2016	December 31, 2015
	(in thousands)	
Cost	$33,164	$ 16,584
Fair value	34,330	16,886

During the three and six months ended June 30, 2016, the Corporation recorded gains related to changes in fair values of mortgage loans held for sale of $634,000 and $864,000, respectively. During the three and six months ended June 30, 2015, the Corporation recorded losses related to changes in fair values of mortgage loans held for sale of $483,000 and $222,000, respectively.

Balance Sheet Offsetting

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

The Corporation is a party to interest rate swap transactions with financial institution counterparties and customers, disclosed in detail above. Under these agreements, the Corporation has the right to net-settle multiple contracts with the same counterparty in the event of default on, or termination of, any one contract. Cash collateral is posted by the party with a net liability position in accordance with contract thresholds and can be used to settle the fair value of the interest rate swap agreements in the event of default.

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

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

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

	Gross Amounts Recognized on the Consolidated Balance Sheets	Gross Amounts Not Offset on the Consolidated Balance Sheets		Net Amount
		Financial Instruments[1]	Cash Collateral[2]	
	(in thousands)			
June 30, 2016				
Interest rate swap derivative assets	$82,888	$(14)	$—	$82,874
Foreign exchange derivative assets with correspondent banks	377	(359)	(18)	—
Total	$83,265	$(373)	$(18)	$82,874
Interest rate swap derivative liabilities	$82,888	$(14)	$(82,510)	$364
Foreign exchange derivative liabilities with correspondent banks	443	(359)	—	84
Total	$83,331	$(373)	$(82,510)	$448
December 31, 2015				
Interest rate swap derivative assets	$32,970	$(55)	$—	$32,915
Foreign exchange derivative assets with correspondent banks	428	(147)	—	281
Total	$33,398	$(202)	$—	$33,196
Interest rate swap derivative liabilities	$32,970	$(55)	$(31,130)	$1,785
Foreign exchange derivative liabilities with correspondent banks	147	(147)	—	—
Total	$33,117	$(202)	$(31,130)	$1,785

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

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

NOTE 10 – Commitments and Contingencies

Commitments

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

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

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

	June 30, 2016	December 31, 2015
	(in thousands)	
Commitments to extend credit	$5,898,623	$ 5,784,138
Standby letters of credit	362,506	374,729
Commercial letters of credit	37,836	39,529

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

Residential Lending

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

The Corporation provides customary representations and warranties to government sponsored entities and investors that specify, among other things, that the loans have been underwritten to the standards established by the government sponsored entity or investor. The Corporation may be required to repurchase a loan, or reimburse the government sponsored entity or investor for a credit loss incurred on a loan, if it is determined that the representations and warranties have not been met. Such repurchases or reimbursements generally result from an underwriting or documentation deficiency. As of both June 30, 2016 and December 31, 2015, total outstanding repurchase requests totaled approximately $543,000.

From 2000 to 2011, the Corporation sold loans to the Federal Home Loan Bank of Pittsburgh under its Mortgage Partnership Finance Program ("MPF Program"). The Corporation provided a "credit enhancement" for residential mortgage loans sold under the MPF Program whereby it would assume credit losses in excess of a defined "First Loss Account," or "FLA" balance, up to specified amounts. The FLA is funded by the Federal Home Loan Bank of Pittsburgh based on a percentage of the outstanding principal balance of loans sold. As of June 30, 2016, the unpaid principal balance of loans sold under the MPF Program was approximately $114 million. As of June 30, 2016 and December 31, 2015, the reserve for estimated credit losses related to loans sold under the MPF Program was $2.1 million and $1.8 million, respectively. Required reserves are calculated based on delinquency status and estimated loss rates established through the Corporation's existing allowance for credit losses methodology for residential mortgage loans.

As of June 30, 2016 and December 31, 2015, the total reserve for losses on residential mortgage loans sold was $2.8 million and $2.6 million, respectively, including both reserves for credit losses under the MPF Program and reserves for representation and warranty exposures. Management believes that the reserves recorded as of June 30, 2016 are adequate. However, declines in collateral values, the identification of additional loans to be repurchased, or a deterioration in the credit quality of loans sold under the MPF Program could necessitate additional reserves, established through charges to earnings, in the future.

Legal Proceedings

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

As of the date of this report, the Corporation believes that any liabilities, individually or in the aggregate, which may result from the final outcomes of pending proceedings will not have a material adverse effect on the financial condition of the Corporation. However, legal proceedings are often unpredictable, and it is possible that the ultimate

resolution of any such matters, if unfavorable, may be material to the Corporation’s results of operations for any particular period, depending, in part, upon the size of the loss or liability imposed and the operating results for the applicable period.

BSA/AML Enforcement Orders

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

properly identified and reported in accordance with the BSA/AML Requirements. In addition to requiring strengthening and enhancement of the BSA/AML Compliance Program, while the Consent Orders remain in effect, the Corporation is subject to certain restrictions on expansion activities of the Corporation and its bank subsidiaries. Further, any failure to comply with the requirements of any of the Consent Orders involving the Corporation or its bank subsidiaries could result in further enforcement actions, the imposition of material restrictions on the activities of the Corporation or its bank subsidiaries, or the assessment of fines or penalties.

Fair Lending Investigation

During the second quarter of 2015, Fulton Bank, N.A. (the "Bank"), the Corporation’s largest bank subsidiary, received a letter from the U.S. Department of Justice (the "Department") indicating that the Department had initiated an investigation regarding potential violations of fair lending laws by the Bank in certain of its geographies. The Bank is cooperating with the Department and responding to the Department’s requests for information. Although the Corporation is not able to predict the outcome of the Department’s investigation, it could result in legal proceedings the resolution of which could potentially involve a settlement, fines or other remedial actions.

Agostino, et al. Litigation

Fulton Bank, N.A. (the "Bank"), the Corporation’s largest bank subsidiary, and two unrelated, third-party defendants, Ameriprise Financial Services, Inc. and Riverview Bank, have been named as defendants in a lawsuit brought on behalf of a group of 58 plaintiffs filed on March 31, 2016 in the Court of Common Pleas for Dauphin County, Pennsylvania (Agostino, et al. v. Ameriprise Financial Services, Inc., et al., No. 2016-CV-2048-CV). The plaintiffs in this action, who are individuals, trustees of certain irrevocable trusts or the executors of the estates of deceased individuals, were clients of Jeffrey M. Mottern, a now deceased attorney, who is alleged to have operated a Ponzi scheme which defrauded the plaintiffs over a period of years through the sale of fictitious, high-yielding investments or by otherwise misappropriating funds entrusted to Mr. Mottern. Mr. Mottern is alleged to have used the proceeds of these activities to engage in speculative securities trading, which incurred significant losses, and for Mr. Mottern’s personal expenses. The allegations against the Bank relate to a commercial checking account at the Bank maintained by Mr. Mottern in connection with Mr. Mottern’s law practice. The lawsuit alleges that the Bank is liable to the plaintiffs for failing to properly monitor Mr. Mottern’s checking account and detect Mr. Mottern’s fraudulent activity, and specifically alleges that the Bank aided and abetted Mr. Mottern’s: (1) fraud; (2) breach of fiduciary duty; (3) violations of the Pennsylvania Unfair Trade Practices and Consumer Protection Law; and (4) conversion. Similar claims have been asserted against Ameriprise Financial Services, Inc. and Riverview Bank, which allegedly maintained a personal brokerage account and a trust account for client or other third-party funds, respectively, for Mr. Mottern. The lawsuit seeks damages from the defendants, including the Bank, alleged to be in excess of $11.3 million, treble damages and attorneys’ fees with respect to alleged violations of the Pennsylvania Unfair Trade Practices and Consumer Protection Law, punitive damages, plus interest and costs. On April 29, 2016, the Bank filed a Notice of Removal to remove this lawsuit to the United States District Court for the Middle District of Pennsylvania. On May 25, 2016, the Bank filed a motion to dismiss the lawsuit for failure to state a claim. On May 31, 2016, the plaintiffs filed a motion to remand the lawsuit to the Court of Common Pleas for Dauphin County, Pennsylvania. On June 17, 2016, the Bank filed a brief opposing the motion to remand. The motion to remand is pending before the District Court and further briefing on the motion to dismiss has been stayed pending resolution of the motion to remand.

NOTE 11 – Fair Value Measurements

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

- Level 1 – Inputs that represent quoted prices for identical instruments in active markets.
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- Level 2 – Inputs that represent quoted prices for similar instruments in active markets, or quoted prices for identical instruments in non-active markets. Also includes valuation techniques whose inputs are derived principally from observable market data other than quoted prices, such as interest rates or other market-corroborated means.
- Level 3 – Inputs that are largely unobservable, as little or no market data exists for the instrument being valued.

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

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

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Mortgage loans held for sale	$—	$34,330	$—	$34,330
Available for sale investment securities:				
Equity securities	20,689	—	—	20,689
U.S. Government sponsored agency securities	—	146	—	146
State and municipal securities	—	345,347	—	345,347
Corporate debt securities	—	88,416	3,131	91,547
Collateralized mortgage obligations	—	706,346	—	706,346
Mortgage-backed securities	—	1,267,763	—	1,267,763
Auction rate securities	—	—	97,886	97,886
Total available for sale investment securities	20,689	2,408,018	101,017	2,529,724
Other assets	16,873	85,911	—	102,784
Total assets	$37,562	$2,528,259	$101,017	$2,666,838
Other liabilities	$16,541	$84,722	$—	$101,263

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Mortgage loans held for sale	$—	$16,886	$—	$16,886
Available for sale investment securities:				
Equity securities	21,514	—	—	21,514
U.S. Government sponsored agency securities	—	25,136	—	25,136
State and municipal securities	—	262,765	—	262,765
Corporate debt securities	—	93,619	3,336	96,955
Collateralized mortgage obligations	—	821,509	—	821,509
Mortgage-backed securities	—	1,158,835	—	1,158,835
Auction rate securities	—	—	98,059	98,059
Total available for sale investment securities	21,514	2,361,864	101,395	2,484,773
Other assets	16,129	34,465	—	50,594
Total assets	$37,643	$2,413,215	$101,395	$2,552,253
Other liabilities	$15,914	$33,010	$—	$48,924

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

- Mortgage loans held for sale – This category consists of mortgage loans held for sale that the Corporation has elected to measure at fair value. Fair values as of June 30, 2016 and December 31, 2015 were measured based on the price that secondary market investors were offering for loans with similar characteristics. See Note 9, "Derivative Financial Instruments" for details related to the Corporation’s election to measure assets and liabilities at fair value.
- Available for sale investment securities – Included in this asset category are both equity and debt securities. Level 2 available for sale debt securities are valued by a third-party pricing service commonly used in the banking industry. The pricing service uses pricing models that vary based on asset class and incorporate available market information, including quoted prices of investment securities with similar characteristics. Because many fixed income securities do not trade on a daily basis, pricing models use available information, as applicable, through processes such as benchmark yield curves, benchmarking of like securities, sector groupings, and matrix pricing.

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

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

- Equity securities – Equity securities consist of common stocks of financial institutions ($19.8 million at June 30, 2016 and $20.6 million at December 31, 2015) and other equity investments ($895,000 at June 30, 2016 and $914,000 at December 31, 2015). These Level 1 investments are measured at fair value based on quoted prices for identical securities in active markets.
- U.S. Government securities/U.S. Government sponsored agency securities/State and municipal securities/Collateralized mortgage obligations/Mortgage-backed securities – These debt securities are classified as Level 2 investments. Fair values are determined by a third-party pricing service, as detailed above.
- Corporate debt securities – This category consists of subordinated debt issued by financial institutions ($30.7 million at June 30, 2016 and $40.8 million at December 31, 2015), senior debt ($18.7 million at June 30, 2016 and $12.3 million at December 31, 2015), single-issuer trust preferred securities issued by financial institutions ($37.4 million at June 30, 2016 and $39.1 million at December 31, 2015), pooled trust preferred securities issued by financial institutions ($706,000 at both June 30, 2016 and December 31, 2015) and other corporate debt issued by non-financial institutions ($4.0 million at both June 30, 2016 and December 31, 2015).

Level 2 investments include the Corporation’s holdings of subordinated debt, other corporate debt issued by non-financial institutions and $35.0 million and $36.5 million of single-issuer trust preferred securities held at June 30, 2016 and December 31, 2015, respectively. The fair values for these corporate debt securities are determined by a third-party pricing service, as detailed above.

Level 3 investments include the Corporation’s investments in pooled trust preferred securities ($706,000 at both June 30, 2016 and December 31, 2015) and certain single-issuer trust preferred securities ($2.4 million at June 30, 2016 and $2.6 million at December 31, 2015). The fair values of these securities were determined based on quotes provided by third-party brokers who determined fair values based predominantly on internal valuation models which were not indicative prices or binding offers. The Corporation’s third-party pricing service cannot derive fair values for these securities primarily due to inactive markets for similar investments. Level 3 values are tested by management primarily through trend analysis, by comparing current values to those reported at the end of the preceding calendar quarter, and determining if they are reasonable based on price and spread movements for this asset class.

- Auction rate securities – Due to their illiquidity, ARCs are classified as Level 3 investments and are valued through the use of an expected cash flows model prepared by a third-party valuation expert. The assumptions used in preparing the expected cash flows model include estimates for coupon rates, time to maturity and market rates of return. The most significant unobservable input to the expected cash flows model is an assumed return to market liquidity sometime in the next five years. If the assumed return to market liquidity was lengthened beyond the next five years, this would result in a decrease in the fair value of these ARCs. The Corporation believes that the trusts underlying the ARCs will self-liquidate as student loans are repaid. Level 3 fair values are tested by management through the performance of a trend analysis of the market price and discount rate. Changes in the price and discount rates are compared to changes in market data, including bond ratings, parity ratios, balances and delinquency levels.

Other assets – Included in this category are the following:

- Level 1 assets include mutual funds that are held in trust for employee deferred compensation plans ($16.0 million at June 30, 2016 and $15.6 million at December 31, 2015) and the fair value of foreign currency exchange contracts ($868,000 at June 30, 2016 and $547,000 at December 31, 2015). The mutual funds and foreign exchange prices used to measure these items at fair value are based on quoted prices for identical instruments in active markets.
- Level 2 assets include the fair value of mortgage banking derivatives in the form of interest rate locks and forward commitments with secondary market investors ($3.0 million at June 30, 2016 and $1.5 million at December 31, 2015) and the fair value of interest rate swaps ($82.9 million at June 30, 2016 and $33.0 million at December 31, 2015). The fair values of the Corporation’s interest rate locks, forward commitments and interest rate swaps represent the amounts that would be required to settle the derivative financial instruments at the balance sheet date. See Note 9, "Derivative Financial Instruments," for additional information.

Other liabilities – Included in this category are the following:

- Level 1 liabilities include employee deferred compensation liabilities which represent amounts due to employees under deferred compensation plans ($16.0 million at June 30, 2016 and $15.6 million at December 31, 2015) and the fair value of foreign currency exchange contracts ($537,000 at June 30, 2016 and $331,000 at December 31, 2015). The fair value of these liabilities are determined in the same manner as the related assets, as described under the heading "Other assets" above.

- Level 2 liabilities include the fair value of mortgage banking derivatives in the form of interest rate locks and forward commitments with secondary market investors ($1.8 million at June 30, 2016 and $40,000 at December 31, 2015) and the fair value of interest rate swaps ($82.9 million at June 30, 2016 and $33.0 million at December 31, 2015). The fair values of these liabilities are determined in the same manner as the related assets, as described under the heading "Other assets" above.

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

	Three months ended June 30, 2016		
	Pooled Trust Preferred Securities	Single-issuer Trust Preferred Securities	ARCs
	(in thousands)		
Balance at March 31, 2016	$706	$ 2,400	$97,326
Unrealized adjustment to fair value (1)	—	22	482
Discount accretion (2)	—	3	78
Balance at June 30, 2016	$706	$ 2,425	$97,886
	Three months ended June 30, 2015		
Balance at March 31, 2015	$1,084	$ 3,820	$98,932
Sales	(554)	—	—
Unrealized adjustment to fair value (1)	—	(2)	(420)
Discount accretion (2)	—	2	94
Balance at June 30, 2015	$530	$ 3,820	$98,606

	Six months ended June 30, 2016		
	Pooled Trust Preferred Securities	Single-issuer Trust Preferred Securities	ARCs
	(in thousands)		
Balance at December 31, 2015	$706	$ 2,630	$98,059
Unrealized adjustment to fair value (1)	—	(211)	(350)
Discount accretion (2)	—	6	177
Balance at June 30, 2016	$706	$ 2,425	$97,886
	Six months ended June 30, 2015		
Balance at December 31, 2014	$4,088	$ 3,820	$100,941
Sales	(3,633)	—	—
Unrealized adjustment to fair value (1)	190	(4)	(88)
Settlements - calls	(117)	—	(2,446)
Discount accretion (2)	2	4	199
Balance at June 30, 2015	$530	$ 3,820	$98,606

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

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

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

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Net loans	$—	$—	$128,174	$128,174
Other financial assets	—	—	50,071	50,071
Total assets	$—	$—	$178,245	$178,245

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
	(in thousands)			
Net loans	$—	$—	$138,491	$138,491
Other financial assets	—	—	52,043	52,043
Total assets	$—	$—	$190,534	$190,534

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

- Net loans – This category consists of loans that were evaluated for impairment under FASB ASC Section 310-10-35 and have been classified as Level 3 assets. The amount shown is the balance of impaired loans, net of the related allowance for loan losses. See Note 5, "Loans and Allowance for Credit Losses," for additional details.
- Other financial assets – This category includes OREO ($11.9 million at June 30, 2016 and $11.1 million at December 31, 2015) and MSRs ($38.2 million at June 30, 2016 and $40.9 million at December 31, 2015), both classified as Level 3 assets.

Fair values for OREO were based on estimated selling prices less estimated selling costs for similar assets in active markets.

MSRs are initially recorded at fair value upon the sale of residential mortgage loans to secondary market investors. MSRs are amortized as a reduction to servicing income over the estimated lives of the underlying loans. MSRs are stratified and evaluated for impairment by comparing each stratum's carrying amount to its estimated fair value. Fair values are determined at the end of each quarter through a discounted cash flows valuation performed by a third-party valuation expert. Significant inputs to the valuation included expected net servicing income, the discount rate and the expected life of the underlying loans. Expected life is based on the contractual terms of the loans, as adjusted for prepayment projections. The weighted average annual constant prepayment rate and the weighted average discount rate used in the June 30, 2016 valuation were 13.7% and 10.1%, respectively. Management tests the reasonableness of the significant inputs to the third-party valuation in comparison to market data.

As required by FASB ASC Section 825-10-50, the following table details the book values and estimated fair values of the Corporation's financial instruments as of June 30, 2016 and December 31, 2015. In addition, a general description of the methods and assumptions used to estimate such fair values is also provided.

	June 30, 2016		December 31, 2015	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
	(in thousands)			
FINANCIAL ASSETS				
Cash and due from banks	$84,647	$84,647	$101,120	$101,120
Interest-bearing deposits with other banks	348,232	348,232	230,300	230,300
Federal Reserve Bank and Federal Home Loan Bank stock	59,854	59,854	62,216	62,216
Loans held for sale [(1)]	34,330	34,330	16,886	16,886
Available for sale investment securities [(1)]	2,529,724	2,529,724	2,484,773	2,484,773
Net Loans [(1)]	13,992,613	13,950,868	13,669,548	13,540,903
Accrued interest receivable	43,316	43,316	42,767	42,767
Other financial assets [(1)]	226,808	226,808	166,920	166,920
FINANCIAL LIABILITIES				
Demand and savings deposits	$11,469,919	$11,469,919	$11,267,367	$11,267,367
Time deposits	2,822,645	2,973,640	2,864,950	2,862,868
Short-term borrowings	722,214	722,214	497,663	497,663
Accrued interest payable	8,336	8,336	10,724	10,724
Other financial liabilities [(1)]	274,104	274,104	190,927	190,927
Federal Home Loan Bank advances and long-term debt	965,552	993,194	949,542	959,315

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

Fair values of financial instruments are significantly affected by the assumptions used, principally the timing of future cash flows and discount rates. Because assumptions are inherently subjective in nature, the estimated fair values cannot be substantiated by comparison to independent market quotes and, in many cases, the estimated fair values could not necessarily be realized in an immediate sale or settlement of the instrument. The aggregate fair value amounts presented do not necessarily represent management's estimate of the underlying value of the Corporation.

For short-term financial instruments, defined as those with remaining maturities of 90 days or less, and excluding those recorded at fair value on the Corporation's consolidated balance sheets, book value was considered to be a reasonable estimate of fair value.

The following instruments are predominantly short-term:

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

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

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

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

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Management's Discussion and Analysis of Financial Condition and Results of Operations ("Management's Discussion") relates to Fulton Financial Corporation (the "Corporation"), a financial holding company registered under the Bank Holding Company Act of 1956 and incorporated under the laws of the Commonwealth of Pennsylvania in 1982, and its wholly owned subsidiaries. Management's Discussion should be read in conjunction with the consolidated financial statements and notes presented in this report.

FORWARD-LOOKING STATEMENTS

The Corporation has made, and may continue to make, certain forward-looking statements with respect to its financial condition and results of operations. Do not unduly rely on forward-looking statements. Forward-looking statements can be identified by the use of words such as "may," "should," "will," "could," "estimates," "predicts," "potential," "continue," "anticipates," "believes," "plans," "expects," "future," "intends" and similar expressions which are intended to identify forward-looking statements. Statements relating to the "outlook" or "2016 outlook" contained herein are forward-looking statements.

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

- the impact of adverse conditions in the economy and capital markets on the performance of the Corporation's loan portfolio and demand for the Corporation's products and services;
- increases in non-performing assets, which may require the Corporation to increase the allowance for credit losses, charge off loans and incur elevated collection and carrying costs related to such non-performing assets;
- investment securities gains and losses, including other-than-temporary declines in the value of securities which may result in charges to earnings;
- the effects of market interest rates, and the relative balances of rate-sensitive assets to rate-sensitive liabilities, on net interest margin and net interest income;
- the effects of changes in interest rates on demand for the Corporation's products and services;
- the effects of changes in interest rates or disruptions in liquidity markets on the Corporation's sources of funding;
- the Corporation's ability to manage liquidity, both at the holding company level and at its bank subsidiaries;
- the impact of increased regulatory scrutiny of the banking industry;
- the effects of the increasing amounts of time and expense associated with regulatory compliance and risk management;
- the potential for negative consequences from regulatory violations, including potential supervisory actions and the assessment of fines and penalties;
- the additional time, expense and investment required to comply with, and the restrictions on potential growth and investment activities resulting from, the existing enforcement orders applicable to the Corporation and its bank subsidiaries by federal and state bank regulatory agencies requiring improvement in compliance functions and other remedial actions, or any future enforcement orders;
- the Corporation's ability to manage the uncertainty associated with the delay in implementing many of the regulations mandated by the Dodd-Frank Act;
- the effects of negative publicity on the Corporation's reputation;
- the effects of adverse outcomes in litigation and governmental or administrative proceedings;
- the Corporation's ability to successfully transform its business model;

- the Corporation’s ability to achieve its growth plans;
- the effects of competition on deposit rates and growth, loan rates and growth and net interest margin;
- the Corporation’s ability to manage the level of non-interest expenses, including salaries and employee benefits expenses, operating risk losses and goodwill impairment;
- the impact of operational risks, including the risk of human error, inadequate or failed internal processes and systems, computer and telecommunications systems failures, faulty or incomplete data and an inadequate risk management framework;
- the impact of failures of third parties upon which the Corporation relies to perform in accordance with contractual arrangements;
- the failure or circumvention of the Corporation’s system of internal controls;
- the loss of, or failure to safeguard, confidential or proprietary information;
- the Corporation’s failure to identify and to address cyber-security risks;

- the Corporation's ability to keep pace with technological changes;
- the Corporation's ability to attract and retain talented personnel;
- capital and liquidity strategies, including the Corporation's ability to comply with applicable capital and liquidity requirements, and the Corporation's ability to generate capital internally or raise capital on favorable terms;
- the Corporation's reliance on its subsidiaries for substantially all of its revenues and its ability to pay dividends or other distributions;
- the effects of any downgrade in the Corporation's credit ratings on its borrowing costs or access to capital markets; and
- the effects of changes in accounting policies, standards, and interpretations on the Corporation's financial condition and results of operations.

RESULTS OF OPERATIONS

Overview and Outlook

Fulton Financial Corporation is a financial holding company comprised of six wholly owned banking subsidiaries which provide a full range of retail and commercial financial services in Pennsylvania, Delaware, Maryland, New Jersey and Virginia. The Corporation generates the majority of its revenue through net interest income, or the difference between interest earned on loans, investments and other interest-earning assets. and interest paid on deposits and borrowings. Growth in net interest income is dependent upon balance sheet growth and maintaining or increasing the net interest margin, which is net interest income (fully taxable-equivalent, or "FTE") as a percentage of average interest-earning assets. The Corporation also generates revenue through fees earned on the various services and products offered to its customers and through gains on sales of assets, such as loans, investments, or properties. Offsetting these revenue sources are provisions for credit losses on loans, non-interest expenses and income taxes.

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

	As of or for the Three months ended June 30				As of or for the Six months ended June 30				
	2016		2015		2016			2015	
Net income (in thousands)	$39,750		$36,680		$78,007			$76,716	
Diluted net income per share	$0.23		$0.21		$0.45			$0.43	
Return on average assets	0.88	%	0.86	%	0.87	%		0.90	%
Return on average equity	7.65	%	7.24	%	7.56	%		7.64	%
Return on average tangible equity [1]	10.26	%	9.83	%	10.17	%	0.1039	10.39	%
Net interest margin [2]	3.20	%	3.20	%	3.22	%		3.24	%
Efficiency ratio [1]	67.59	%	68.94	%	67.96	%		69.55	%
Non-performing assets to total assets	0.76	%	0.93	%	0.76	%		0.93	%
Annualized net charge-offs to average loans	0.10	%	0.38	%	0.15	%		0.23	%

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

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

Net income for the three and six months ended June 30, 2016 increased $3.1 million, or 8.4%, and $1.3 million, or 1.7%, respectively compared to the same periods in 2015, mainly due to increases in net interest income and non-interest income, excluding investment securities gains, partially offset by increases in the provision for credit

losses, decreases in investment securities gains and increases in non-interest expense.

The following is a summary of financial highlights for the three and six months ended June 30, 2016:

FTE Net Interest Income and Net Interest Margin - For the three and six months ended June 30, 2016, FTE net interest income increased $6.4 million, or 5.1%, and $12.4 million, or 4.8%, respectively, in comparison to the same periods in 2015. These increases were driven by growth in interest-earning assets, as net interest margin was generally stable.

Average interest-earning assets increased $848.6 million, or 5.3%, in the second quarter of 2016 in comparison to the same period in 2015, mainly due to a $773.4 million, or 5.9%, increase in average loans and a $164.3 million, or 7.2%, increase in average investment securities, partially offset by a $82.2 million, or 18.7%, decrease in average other interest-earning assets. Average interest-bearing liabilities increased $501.9 million, or 4.5%, primarily due to a $539.7 million, or 5.5%, increase in average interest-bearing deposits and a $23.7 million, or 6.2%, increase in average short-term borrowings, partially offset by a $61.5 million, or 6.0%, decrease in average FHLB advances and average long-term debt. Additional funding to support the increase in average interest-earning assets was provided by a $342.8 million, or 9.2%, increase in average noninterest-bearing deposits.

During the first half of 2016, average interest-earning assets increased $836.7 million, or 5.3%, compared to the same period in 2015, mainly due to a $765.4 million, or 5.8%, increase in average loans and a $175.9 million, or 7.7%, increase in average investment securities, partially offset by a $98.7 million, or 21.6%, decrease in average other interest-earning assets. Average interest-bearing liabilities increased $498.2 million, or 4.5%, the net result of $531.9 million, or 5.5%, increase in average interest-bearing deposits, and a $79.7 million, or 23.1%, increase in average short-term borrowings, partially offset by $113.4 million, or 10.5%, decrease in average FHLB advances and average long-term debt. Additional funding to support the increase in average interest-earning assets was provided by a $324.1 million, or 8.8%, increase in average noninterest-bearing deposits.

Asset Quality - The Corporation recorded a $2.5 million provision for credit losses for the three months ended June 30, 2016, compared to a $2.2 million provision for the same period in 2015. For the six months ended June 30, 2016, the Corporation recorded a $4.0 million provision for credit losses compared to a $1.5 million negative provision in the same period of 2015. The negative provision in 2015 was driven by an improvement in net charge-off levels, particularly among pooled impaired loans across all portfolio segments.

Annualized net charge-offs to average loans outstanding were 0.10% for the second quarter of 2016, compared to 0.38% for the second quarter of 2015. Annualized net charge-offs to average loans outstanding were 0.15% for the first half of 2016, compared to 0.23% for the first half of 2015. Non-performing assets decreased $22.6 million, or 13.9%, as of June 30, 2016 compared to June 30, 2015 and were 0.76% and 0.93% of total assets as of June 30, 2016 and June 30, 2015, respectively. The total delinquency rate was 1.30% as of June 30, 2016, compared to 1.60% as of June 30, 2015.

Non-interest Income - For the three and six months ended June 30, 2016, non-interest income, excluding investment securities gains, increased $2.0 million, or 4.5%, and $3.6 million, or 4.2%, respectively, in comparison to the same periods in 2015. The increases in both periods were primarily the result of increases in commercial interest rate swap fees and higher service charges on deposit accounts, partially offset by decreases in mortgage banking income resulting primarily from of a $1.7 million impairment charge on MSRs during the second quarter of 2016. See Note 6, "Mortgage Servicing Rights," in the Notes to Consolidated Financial Statements for additional details regarding the impairment charge.

Investment securities gains for the three and six months ended June 30, 2016 were $76,000 and $1.0 million, respectively, as compared to $2.4 million and $6.6 million for the same periods in 2015.

Non-interest Expense - For the three and six months ended June 30, 2016, non-interest expense increased $3.3 million, or 2.8%, and $5.2 million, or 2.2%, respectively, in comparison to the same periods in 2015. The primary drivers of the net increases were higher salaries and employee benefits, partially offset by decreases in other expense categories, most notably other outside services.

2016 Outlook

Originally the Corporation provided its outlook for 2016 results in its Annual Report on Form 10-K for the year ended December 31, 2015. The following outlook for 2016 remains unchanged:

- annual mid- to high- single digit growth rate in average loans and deposits;
- provision for credit losses driven primarily by loan growth;
- annual mid- to high- single digit growth rate in non-interest income, excluding the impact of securities gains;
- annual low- to mid- single digit growth rate in non-interest expense (excluding, for comparison purposes, the impact of the loss on redemption of Trust Preferred Securities (TruPS) incurred in the third quarter of 2015); and
- focus on utilizing capital to support growth and provide appropriate returns to shareholders.

The Corporation's original outlook expected net interest margin to be stable on an annual basis with modest quarterly volatility of plus or minus 0 to 3 basis points. This outlook has been updated as follows:

- absent further market interest rate increases, low-single digit quarterly compression in net interest margin.

Supplemental Reporting of Non-GAAP Based Financial Measures

This Quarterly Report on Form 10-Q contains supplemental financial information, as detailed below, which has been derived by methods other than GAAP. The Corporation has presented these non-GAAP financial measures because it believes that these measures provide useful and comparative information to assess trends in the Corporation's results of operations. Presentation of these non-GAAP financial measures is consistent with how the Corporation evaluates its performance internally, and these non-GAAP financial measures are frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the Corporation's industry. Management believes that these non-GAAP financial measures, in addition to GAAP measures, are also useful to investors to evaluate the Corporation's results. Investors should recognize that the Corporation's presentation of these non-GAAP financial measures might not be comparable to similarly-titled measures of other companies. These non-GAAP financial measures should not be considered a substitute for GAAP basis measures, and the Corporation strongly encourages a review of its consolidated financial statements in their entirety. Following are reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measure as of and for the quarter and year to date ended June 30:

	As of or for the Three months ended June 30		As of or for the Six months ended June 30	
	2016	2015	2016	2015
	(in thousands)			
Return on average tangible equity				
Net income	$39,750	$36,680	$78,007	$76,716
Plus: Intangible amortization, net of tax	—	69	—	153
Numerator	$39,750	$36,749	$78,007	$76,869
Average common shareholders' equity	$2,089,915	$2,031,788	$2,074,357	$2,023,919
Less: Average goodwill and intangible assets	(531,556)	(531,618)	(561,556)	(531,675)
Average tangible shareholders' equity (denominator)	$1,558,359	$1,500,170	$1,512,801	$1,492,244
Return on average tangible equity, annualized	10.26%	9.83%	10.17%	10.39%
Efficiency ratio				
Non-interest expense	$121,637	$118,354	$242,050	$236,832
Less: Intangible amortization	—	(106)	—	(236)
Numerator	$121,637	$118,248	$242,050	$236,596
Net interest income (fully taxable equivalent) (1)	$133,890	$127,445	$267,916	$255,531
Plus: Total Non-interest income	46,137	46,489	89,274	91,226
Less: Investment securities gains, net	(76)	(2,415)	(1,023)	(6,560)
Denominator	$179,951	$171,519	$356,167	$340,197
Efficiency ratio	67.59%	68.94%	67.96%	69.55%

(1)

Presented on an FTE basis, using a 35% federal tax rate and statutory interest expense disallowances. See also the “Net Interest Income” section of Management’s Discussion.

Quarter Ended June 30, 2016 compared to the Quarter Ended June 30, 2015

Net Interest Income

FTE net interest income increased $6.4 million, to $133.9 million, in the second quarter of 2016, from $127.4 million in the second quarter of 2015. This increase was due to an $848.6 million, or 5.3%, increase in interest-earning assets. The net interest margin of 3.20% for the second quarter of 2016 was flat compared to the second quarter of 2015. The following table provides a comparative average balance sheet and net interest income analysis for those periods. Interest income and yields are presented on an FTE basis, using a 35% federal tax rate and statutory interest expense disallowances. The discussion following this table is based on these FTE amounts.

	Three months ended June 30					
	2016			2015		
	Average Balance	Interest (1)	Yield/ Rate	Average Balance	Interest (1)	Yield/ Rate
ASSETS	(dollars in thousands)					
Interest-earning assets:						
Loans, net of unearned income [2]	$13,966,024	$138,317	3.98%	$13,192,600	$133,339	4.05%
Taxable investment securities [3]	2,127,780	11,159	2.10	2,048,558	10,944	2.14
Tax-exempt investment securities [3]	314,851	3,570	4.54	216,355	2,894	5.35
Equity securities [3]	14,220	185	5.23	27,618	379	5.50
Total investment securities	2,456,851	14,914	2.43	2,292,531	14,217	2.48
Loans held for sale	19,449	188	3.87	26,335	265	4.03
Other interest-earning assets	357,211	864	0.96	439,425	933	0.85
Total interest-earning assets	16,799,535	154,283	3.69%	15,950,891	148,754	3.74%
Noninterest-earning assets:						
Cash and due from banks	100,860			104,723		
Premises and equipment	227,517			226,569		
Other assets	1,189,226			1,094,071		
Less: Allowance for loan losses	(164,573)			(176,085)		
Total Assets	$18,152,565			$17,200,169		
LIABILITIES AND EQUITY						
Interest-bearing liabilities:						
Demand deposits	$3,454,031	$1,527	0.18%	$3,152,697	$987	0.13%
Savings deposits	3,989,988	1,886	0.19	3,568,579	1,247	0.14
Time deposits	2,844,434	7,474	1.06	3,027,520	7,819	1.04
Total interest-bearing deposits	10,288,453	10,887	0.43	9,748,796	10,053	0.41
Short-term borrowings	403,669	217	0.21	379,988	103	0.11
Federal Home Loan Bank advances and long-term debt	965,526	9,289	3.86	1,026,987	11,153	4.35
Total interest-bearing liabilities	11,657,648	20,393	0.70%	11,155,771	21,309	0.77%
Noninterest-bearing liabilities:						
Demand deposits	4,077,642			3,734,880		
Other	327,360			277,730		
Total Liabilities	16,062,650			15,168,381		