PARK NATIONAL CORP /OH/
Form 10-Q
April 27, 2015

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

FORM 10-Q

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

For the quarterly period ended March 31, 2015

Commission File Number 1-13006

Park National Corporation
(Exact name of registrant as specified in its charter)

Ohio (State or other jurisdiction of incorporation or organization)	31-1179518 (I.R.S. Employer Identification No.)

50 North Third Street, Newark, Ohio 43055
(Address of principal executive offices) (Zip Code)

(740) 349-8451
(Registrant's telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark 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 check mark 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 check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨

Non-accelerated filer (Do not check if a smaller reporting company)	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No ý

15,370,884 Common shares, no par value per share, outstanding at April 24, 2015.

PARK NATIONAL CORPORATION

CONTENTS

PARK NATIONAL CORPORATION AND SUBSIDARIES
Consolidated Condensed Balance Sheets (Unaudited)
(in thousands, except share and per share data)

	March 31, 2015	December 31, 2014
Assets:		
Cash and due from banks	$108,528	$133,511
Money market instruments	471,957	104,188
Cash and cash equivalents	580,485	237,699
Investment securities:		
Securities available-for-sale, at fair value (amortized cost of $1,251,451 and $1,299,980 at March 31, 2015 and December 31, 2014, respectively)	1,265,477	1,301,915
Securities held-to-maturity, at amortized cost (fair value of $136,418 and $143,490 at March 31, 2015 and December 31, 2014, respectively)	133,383	140,562
Other investment securities	58,311	58,311
Total investment securities	1,457,171	1,500,788
Loans	4,830,830	4,829,682
Allowance for loan losses	(55,408)	(54,352)
Net loans	4,775,422	4,775,330
Bank owned life insurance	168,585	171,928
Goodwill	72,334	72,334
Premises and equipment, net	57,189	55,479
Other real estate owned	26,337	22,605
Accrued interest receivable	17,979	17,677
Mortgage loan servicing rights	8,312	8,613
Other	140,185	138,746
Total assets	$7,303,999	$7,001,199
Liabilities and Shareholders' Equity:		
Deposits:		
Noninterest bearing	$1,262,442	$1,269,296
Interest bearing	4,253,405	3,858,704
Total deposits	5,515,847	5,128,000
Short-term borrowings	239,961	276,980
Long-term debt	733,555	786,602
Subordinated notes	45,000	45,000
Accrued interest payable	2,588	2,551
Other	59,617	65,525
Total liabilities	$6,596,568	$6,304,658
Shareholders' equity:		
Preferred shares (200,000 shares authorized; 0 shares issued)	$—	$—
Common shares (No par value; 20,000,000 shares authorized; 16,150,876 shares issued at March 31, 2015 and 16,150,888 shares issued at December 31, 2014)	303,362	303,104
Retained earnings	489,040	484,484
Treasury shares (779,989 shares at March 31, 2015 and 758,489 at December 31, 2014)	(79,222)	(77,439)

Accumulated other comprehensive loss, net of taxes	(5,749)	(13,608)
Total shareholders' equity	707,431	696,541
Total liabilities and shareholders’ equity	$7,303,999	$7,001,199

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Table of Contents

PARK NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Condensed Statements of Income (Unaudited)
(in thousands, except share and per share data)

	Three Months Ended March 31, 2015	2014
Interest and dividend income:		
Interest and fees on loans	$55,412	$54,753
Interest and dividends on:		
Obligations of U.S. Government, its agencies and other securities	9,389	9,476
Obligations of states and political subdivisions	—	2
Other interest income	217	111
Total interest and dividend income	65,018	64,342
Interest expense:		
Interest on deposits:		
Demand and savings deposits	486	393
Time deposits	2,622	2,278
Interest on borrowings:		
Short-term borrowings	133	126
Long-term debt	6,242	7,065
Total interest expense	9,483	9,862
Net interest income	55,535	54,480
Provision for (recovery of) loan losses	1,632	(2,225)
Net interest income after provision for (recovery of) loan losses	53,903	56,705
Other income:		
Income from fiduciary activities	4,912	4,541
Service charges on deposit accounts	3,381	3,659
Other service income	2,301	1,918
Checkcard fee income	3,351	3,213
Bank owned life insurance income	1,878	1,262
ATM fees	578	594
OREO valuation adjustments	(304)	(416)
Gain on sale of OREO, net	673	706
Gain on commercial loans held for sale	756	—
Miscellaneous	1,347	1,171
Total other income	18,873	16,648

4

Table of Contents

PARK NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Condensed Statements of Income (Unaudited) (Continued)
(in thousands, except share and per share data)

	Three Months Ended March 31, 2015	2014
Other expense:		
Salaries and employee benefits	$26,667	$25,060
Occupancy expense	2,579	2,832
Furniture and equipment expense	2,862	2,998
Data processing fees	1,267	1,114
Professional fees and services	4,694	6,283
Marketing	1,013	1,118
Insurance	1,461	1,447
Communication	1,331	1,343
State tax expense	1,047	975
OREO expense	467	1,277
Miscellaneous	2,332	1,332
Total other expense	45,720	45,779
Income before income taxes	27,056	27,574
Federal income taxes	8,012	7,997
Net income	$19,044	$19,577
Earnings per Common Share:		
Basic	$1.24	$1.27
Diluted	$1.23	$1.27
Weighted average common shares outstanding		
Basic	15,379,170	15,401,105
Diluted	15,421,928	15,414,897
Cash dividends declared	$0.94	$0.94

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Table of Contents

PARK NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Condensed Statements of Comprehensive Income (Unaudited)
(in thousands, except share and per share data)

	Three Months Ended March 31,	
	2015	2014
Net income	$19,044	$19,577
Other comprehensive income, net of tax:		
Unrealized net holding gain on securities available-for-sale, net of income tax of $4,232 and $5,891 for the three months ended March 31, 2015 and 2014, respectively	7,859	10,941
Other comprehensive income	$7,859	$10,941
Comprehensive income	$26,903	$30,518

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Table of Contents

PARK NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Condensed Statements of Changes in Shareholders' Equity (Unaudited)
(in thousands, except per share data)

	Preferred Shares	Common Shares	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive (Loss) Income
Balance at January 1, 2014, as previously presented	$—	$302,651	$460,643	$(76,128)	$(35,419)
Cumulative effect of change in accounting principle for low income housing tax credits, net of tax			(1,924)		
Balance, at January 1, 2014 - as adjusted	$—	$302,651	$458,719	$(76,128)	$(35,419)
Net Income			19,577		
Other comprehensive income, net of tax:					
Unrealized net holding gain on securities available-for-sale, net of income tax expense of $5,891					10,941
Cash dividends on common stock at $0.94 per share			(14,488)		
Cash payment for fractional shares in dividend reinvestment plan		(1)			
Share-based compensation expense		103			
Repurchase of treasury shares				(1,485)	
Balance at March 31, 2014	$—	$302,753	$463,808	$(77,613)	$(24,478)
Balance at January 1, 2015, as previously presented	$—	$303,104	$486,541	$(77,439)	$(13,608)
Cumulative effect of change in accounting principle for low income housing tax credits, net of tax			(2,057)		
Balance, at January 1, 2015- as adjusted	$—	$303,104	$484,484	$(77,439)	$(13,608)
Net Income			19,044		
Other comprehensive income, net of tax:					
Unrealized net holding gain on securities available-for-sale, net of income tax expense of $4,232					7,859
Cash dividends on common shares at $0.94 per share			(14,488)		
Cash payment for fractional shares in dividend reinvestment plan		(1)			
Share-based compensation expense		259			
Repurchase of treasury shares				(1,783)	
Balance at March 31, 2015	$—	$303,362	$489,040	$(79,222)	$(5,749)

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

7

Table of Contents

PARK NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Condensed Statements of Cash Flows (Unaudited)
(in thousands)

	Three Months Ended March 31, 2015	2014
Operating activities:		
Net income	$19,044	$19,577
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (recovery of) loan losses	1,632	(2,225)
Amortization of loan fees and costs, net	1,565	1,135
Depreciation	1,691	1,821
Accretion of investment securities, net	(63)	(49)
Amortization of long-term debt prepayment penalty	1,497	1,222
Loan originations to be sold in secondary market	(40,270)	(22,194)
Proceeds from sale of loans in secondary market	38,254	20,802
Gain on sale of loans in secondary market	(707)	(452)
Proceeds from commercial loans held for sale	900	—
Gain on sale of commercial loans held for sale	(756)	—
Share-based compensation expense	259	103
OREO valuation adjustments	304	416
Gain on sale of OREO, net	(673)	(706)
Bank owned life insurance income	(1,878)	(1,262)
Changes in assets and liabilities:		
Increase in other assets	(8,403)	(2,665)
Decrease in other liabilities	(3,320)	(6,761)
Net cash provided by operating activities	$9,076	$8,762
Investing activities:		
Proceeds from redemption of Federal Home Loan Bank stock	$—	$8,946
Proceeds from calls and maturities of:		
Available-for-sale securities	78,523	21,581
Held-to-maturity securities	7,179	10,125
Purchases of:		
Available-for-sale securities	(29,931)	(14,811)
Net increase in other investments	—	(1,350)
Net loan originations, portfolio loans	(5,203)	(2,455)
Investments in qualified affordable housing projects	(2,591)	(8,000)
Proceeds from the sale of OREO	3,861	4,687
Life insurance death benefits	5,221	744
Purchases of premises and equipment, net	(3,401)	(2,123)
Net cash used in investing activities	$53,658	$17,344

8

Table of Contents

PARK NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Condensed Statements of Cash Flows (Unaudited) (Continued)
(in thousands)

	Three Months Ended March 31,	
	2015	2014
Financing activities:		
Net increase in deposits	$387,847	$186,704
Net (decrease) increase in short-term borrowings	(37,019)	9,865
Repayment of long-term debt	(79,544)	(50,013)
Proceeds from issuance of long-term debt	25,000	25,000
Repurchase of treasury shares	(1,783)	(1,485)
Cash dividends paid on common shares	(14,449)	(14,470)
Net cash provided by financing activities	$280,052	$155,601
Increase in cash and cash equivalents	342,786	181,707
Cash and cash equivalents at beginning of year	237,699	147,030
Cash and cash equivalents at end of period	$580,485	$328,737
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$9,446	$9,858
Income taxes	$—	$—
Non cash items:		
Loans transferred to OREO	$7,270	$4,802
Transfers from loans to loans held for sale	$132	$—

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

PARK NATIONAL CORPORATION
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation

The accompanying unaudited consolidated condensed financial statements included in this report have been prepared for Park National Corporation (sometimes also referred to as the “Registrant”) and its subsidiaries. Unless the context otherwise requires, references to "Park", the "Corporation" or the "Company" and similar terms mean Park National Corporation and its subsidiaries. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results of operations for the interim periods included herein have been made. The results of operations for the three-month period ended March 31, 2015 are not necessarily indicative of the operating results to be anticipated for the fiscal year ending December 31, 2015.

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and footnotes necessary for a fair presentation of the condensed balance sheets, condensed statements of income, condensed statements of comprehensive income, condensed statements of changes in shareholders’ equity and condensed statements of cash flows in conformity with U.S. generally accepted accounting principles (“U.S. GAAP”). These financial statements should be read in conjunction with the consolidated financial statements incorporated by reference in the Annual Report on Form 10-K of Park for the fiscal year ended December 31, 2014 from Park’s 2014 Annual Report to Shareholders (“2014 Annual Report”). Prior period financial statements reflect the retrospective application of Accounting Standards Update (ASU) 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects.

Park’s significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in Park’s 2014 Annual Report. For interim reporting purposes, Park follows the same basic accounting policies, as updated by the information contained in this report, and considers each interim period an integral part of an annual period.

Note 2 – Recent Accounting Pronouncements

ASU 2014-01- Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force): In January 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update 2014-01, Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force). The ASU permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. Additionally, a reporting entity should disclose information that enables users of its financial statement to understand the nature of its investments in qualified affordable housing projects, and the effect of the measurement of its investments in qualified affordable housing projects and the related tax credits on its financial position and results of operations. The new guidance became effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. Park adopted this guidance in the first quarter of 2015. The guidance was applied retrospectively to all prior periods presented. The adoption resulted in adjustments to reduce beginning retained earnings, other assets and the prior period consolidated condensed statements of income. See Note 16 - Investment in Qualified Affordable Housing for further details.

ASU 2014-04 - Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force): In January 2014, FASB issued Accounting Standards Update 2014-04, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force). The ASU clarifies when an in substance repossession or foreclosure occurs and a creditor is considered to have received physical possession of real estate property collateralizing a consumer mortgage loan. Specifically, the new ASU requires a creditor to reclassify a collateralized consumer mortgage loan to real estate property upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. Additional disclosures are required detailing the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgages collateralized by real estate property that are in the process of foreclosure. The new guidance is effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. The adoption of this guidance did not have a material impact on Park's consolidated financial statements, but resulted in additional disclosures. See Note 5 - Other Real Estate Owned.

ASU 2014-09 - Revenue from Contracts with Customers (Topic 606): In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU creates a new topic, Topic 606, to provide guidance on revenue recognition for entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets. The core principle of the guidance is that an entity should recognize 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. Additional disclosures are required to provide quantitative and qualitative information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2016. Early adoption is not permitted. Management is currently evaluating the impact of the adoption of this guidance on Park's consolidated financial statements.

ASU 2014-11 - Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures: In June 2014, the FASB issued Accounting Standards Update 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendments in this ASU change the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The amendments also require two new disclosures. The first disclosure requires an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements. The second disclosure provides increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The accounting changes are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. The disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, with all other disclosure requirements required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The adoption of this guidance did not have an impact on Park's consolidated financial statements, but resulted in additional disclosures. See Note 17 - Repurchase Agreement Borrowings.

ASU 2015-02 - Consolidation (Topic 810): Amendments to the Consolidation Analysis: In February 2015, the FASB issued Accounting Standards Update 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The ASU amends the current consolidation guidance and affects both the variable interest entity and voting interest entity consolidation models. The new guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. Management is currently evaluating the impact of the adoption of this guidance on Park’s consolidated financial statements.

Table of Contents

Note 3 – Loans

The composition of the loan portfolio, by class of loan, as of March 31, 2015 and December 31, 2014 was as follows:

	March 31, 2015			December 31, 2014		
(In thousands)	Loan balance	Accrued interest receivable	Recorded investment	Loan balance	Accrued interest receivable	Recorded investment
Commercial, financial and agricultural *	$844,333	$3,265	$847,598	$856,535	$3,218	$859,753
Commercial real estate *	1,071,265	3,529	1,074,794	1,069,637	3,546	1,073,183
Construction real estate:						
SEPH commercial land and development *	2,182	1	2,183	2,195	—	2,195
Remaining commercial	109,820	293	110,113	115,139	300	115,439
Mortgage	30,886	81	30,967	31,148	72	31,220
Installment	6,887	26	6,913	7,322	23	7,345
Residential real estate:						
Commercial	412,724	1,034	413,758	417,612	1,038	418,650
Mortgage	1,197,202	1,665	1,198,867	1,189,709	1,548	1,191,257
HELOC	213,594	820	214,414	216,915	803	217,718
Installment	25,885	91	25,976	27,139	97	27,236
Consumer	912,854	2,817	915,671	893,160	2,967	896,127
Leases	3,198	44	3,242	3,171	17	3,188
Total loans	$4,830,830	$13,666	$4,844,496	$4,829,682	$13,629	$4,843,311

* Included within commercial, financial and agricultural loans, commercial real estate loans, and SEPH commercial land and development loans is an immaterial amount of consumer loans that are not broken out by class.

Loans are shown net of deferred origination fees, costs and unearned income of $9.6 million at March 31, 2015 and $9.4 million at December 31, 2014, which represented a net deferred income position in both periods.

Overdrawn deposit accounts of $3.2 million and $2.3 million have been reclassified to loans at March 31, 2015 and December 31, 2014, respectively.

Table of Contents

Credit Quality

The following tables present the recorded investment in nonaccrual loans, accruing troubled debt restructurings, and loans past due 90 days or more and still accruing by class of loan as of March 31, 2015 and December 31, 2014:

	March 31, 2015			
(In thousands)	Nonaccrual loans	Accruing troubled debt restructurings	Loans past due 90 days or more and accruing	Total nonperforming loans
Commercial, financial and agricultural	$20,008	$ 570	$73	$ 20,651
Commercial real estate	14,232	2,668	—	16,900
Construction real estate:				
SEPH commercial land and development	2,077	—	—	2,077
Remaining commercial	5,671	54	—	5,725
Mortgage	89	93	—	182
Installment	111	121	—	232
Residential real estate:				
Commercial	24,635	584	—	25,219
Mortgage	21,323	10,631	719	32,673
HELOC	1,822	780	—	2,602
Installment	1,643	708	64	2,415
Consumer	4,262	666	816	5,744
Total loans	$95,873	$ 16,875	$1,672	$ 114,420

	December 31, 2014			
(In thousands)	Nonaccrual loans	Accruing troubled debt restructurings	Loans past due 90 days or more and accruing	Total nonperforming loans
Commercial, financial and agricultural	$18,826	$ 297	$ 229	$ 19,352
Commercial real estate	19,299	2,690	—	21,989
Construction real estate:				
SEPH commercial land and development	2,078	—	—	2,078
Remaining commercial	5,558	51	—	5,609
Mortgage	59	94	9	162
Installment	115	125	—	240
Residential real estate:				
Commercial	24,336	594	—	24,930
Mortgage	21,869	10,349	1,329	33,547
HELOC	1,879	630	9	2,518
Installment	1,743	779	—	2,522
Consumer	4,631	723	1,133	6,487
Total loans	$100,393	$ 16,332	$ 2,709	$ 119,434

Table of Contents

The following table provides additional information regarding those nonaccrual and accruing troubled debt restructured loans that were individually evaluated for impairment and those collectively evaluated for impairment as of March 31, 2015 and December 31, 2014.

	March 31, 2015			December 31, 2014		
(In thousands)	Nonaccrual and accruing troubled debt restructurings	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Nonaccrual and accruing troubled debt restructurings	Loans individually evaluated for impairment	Loans collectively evaluated for impairment
Commercial, financial and agricultural	$20,578	$ 20,571	$ 7	$19,123	$ 19,106	$ 17
Commercial real estate	16,900	16,900	—	21,989	21,989	—
Construction real estate:						
SEPH commercial land and development	2,077	2,077	—	2,078	2,078	—
Remaining commercial	5,725	5,725	—	5,609	5,609	—
Mortgage	182	—	182	153	—	153
Installment	232	—	232	240	—	240
Residential real estate:						
Commercial	25,219	25,219	—	24,930	24,930	—
Mortgage	31,954	—	31,954	32,218	—	32,218
HELOC	2,602	—	2,602	2,509	—	2,509
Installment	2,351	—	2,351	2,522	—	2,522
Consumer	4,928	—	4,928	5,354	—	5,354
Total loans	$112,748	$ 70,492	$ 42,256	$116,725	$ 73,712	$ 43,013

All of the loans individually evaluated for impairment were evaluated using the fair value of the underlying collateral or the present value of expected future cash flows as the measurement method.

The following table presents loans individually evaluated for impairment by class of loan as of March 31, 2015 and December 31, 2014.

	March 31, 2015			December 31, 2014		
(In thousands)	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated
With no related allowance recorded:						
Commercial, financial and agricultural	$25,671	$17,301	$—	$30,601	$17,883	$—
Commercial real estate	16,963	15,513	—	27,923	20,696	—
Construction real estate:						
SEPH commercial land and development	10,861	2,077	—	11,026	2,078	—
Remaining commercial	1,432	444	—	1,427	391	—
Residential real estate:						
Commercial	25,770	23,852	—	25,822	23,352	—
Consumer	—	—	—	—	—	—

With an allowance recorded:						
Commercial, financial and agricultural	7,444	3,270	1,839	1,251	1,223	981
Commercial real estate	1,419	1,387	645	1,310	1,293	262
Construction real estate:						
SEPH commercial land and development	—	—	—	—	—	—
Remaining commercial	5,281	5,281	2,157	5,218	5,218	1,812
Residential real estate:						
Commercial	1,394	1,367	423	1,578	1,578	605
Consumer	—	—	—	—	—	—
Total	$96,235	$70,492	$5,064	$106,156	$73,712	$3,660

14

Table of Contents

Management’s general practice is to proactively charge down loans individually evaluated for impairment to the fair value of the underlying collateral. At March 31, 2015 and December 31, 2014, there were $21.6 million and $32.4 million, respectively, of partial charge-offs on loans individually evaluated for impairment with no related allowance recorded and $4.2 million and $45,000, respectively, of partial charge-offs on loans individually evaluated for impairment that also had a specific reserve allocated.

The allowance for loan losses included specific reserves related to loans individually evaluated for impairment at March 31, 2015 and December 31, 2014 of $5.1 million and $3.7 million, respectively. These loans with specific reserves had a recorded investment of $11.3 million and $9.3 million as of March 31, 2015 and December 31, 2014, respectively.

Interest income on loans individually evaluated for impairment is recognized on a cash basis only when Park expects to receive the entire recorded investment of the loan. The following table presents the average recorded investment and interest income recognized subsequent to impairment on loans individually evaluated for impairment as of and for the three months ended March 31, 2015 and March 31, 2014:

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
(In thousands)	Recorded investment as of March 31, 2015	Average recorded investment	Interest income recognized	Recorded investment as of March 31, 2014	Average recorded investment	Interest income recognized
Commercial, financial and agricultural	$20,571	$19,876	$131	$19,835	$20,140	$61
Commercial real estate	16,900	18,977	163	39,395	40,995	253
Construction real estate:						
SEPH commercial land and development	2,077	2,077	8	4,102	4,464	56
Remaining commercial	5,725	5,697	5	10,530	10,379	47
Residential real estate:						
Commercial	25,219	25,373	255	31,213	31,101	263
Consumer	—	—	—	798	799	—
Total	$70,492	$72,000	$562	$105,873	$107,878	$680

Table of Contents

The following tables present the aging of the recorded investment in past due loans as of March 31, 2015 and December 31, 2014 by class of loan.

	March 31, 2015				
(In thousands)	Accruing loans past due 30-89 days	Past due nonaccrual loans and loans past due 90 days or more and accruing*	Total past due	Total current	Total recorded investment
Commercial, financial and agricultural	$5,331	$ 6,019	$ 11,350	$836,248	$ 847,598
Commercial real estate	317	1,818	2,135	1,072,659	1,074,794
Construction real estate:					
SEPH commercial land and development	—	2,069	2,069	114	2,183
Remaining commercial	163	75	238	109,875	110,113
Mortgage	108	68	176	30,791	30,967
Installment	116	6	122	6,791	6,913
Residential real estate:					
Commercial	447	19,015	19,462	394,296	413,758
Mortgage	8,985	9,176	18,161	1,180,706	1,198,867
HELOC	490	132	622	213,792	214,414
Installment	202	454	656	25,320	25,976
Consumer	7,546	3,133	10,679	904,992	915,671
Leases	—	—	—	3,242	3,242
Total loans	$23,705	$ 41,965	$ 65,670	$4,778,826	$ 4,844,496

* Includes $1.7 million of loans past due 90 days or more and accruing. The remaining are past due, nonaccrual loans and accruing troubled debt restructurings.

	December 31, 2014				
(in thousands)	Accruing loans past due 30-89 days	Past due nonaccrual loans and loans past due 90 days or more and accruing*	Total past due	Total current	Total recorded investment
Commercial, financial and agricultural	$6,482	$ 7,508	$ 13,990	$845,763	$ 859,753
Commercial real estate	808	8,288	9,096	1,064,087	1,073,183
Construction real estate:					
SEPH commercial land and development	—	2,068	2,068	127	2,195
Remaining commercial	166	77	243	115,196	115,439
Mortgage	39	68	107	31,113	31,220
Installment	21	25	46	7,299	7,345
Residential real estate:					
Commercial	250	19,592	19,842	398,808	418,650
Mortgage	11,146	10,637	21,783	1,169,474	1,191,257
HELOC	262	387	649	217,069	217,718
Installment	596	464	1,060	26,176	27,236
Consumer	11,304	3,818	15,122	881,005	896,127

Leases	—	—	—	3,188	3,188
Total loans	$31,074	$ 52,932	$ 84,006	$4,759,305	$ 4,843,311

* Includes $2.7 million of loans past due 90 days or more and accruing. The remaining are past due, nonaccrual loans and accruing troubled debt restructurings.

Table of Contents

Credit Quality Indicators

Management utilizes past due information as a credit quality indicator across the loan portfolio. Past due information as of March 31, 2015 and December 31, 2014 is included in the tables above. The past due information is the primary credit quality indicator within the following classes of loans: (1) mortgage loans and installment loans in the construction real estate segment; (2) mortgage loans, HELOC and installment loans in the residential real estate segment; and (3) consumer loans. The primary credit indicator for commercial loans is based on an internal grading system that grades all commercial loans on a scale from 1 to 8. Credit grades are continuously monitored by the responsible loan officer and adjustments are made when appropriate. A grade of 1 indicates little or no credit risk and a grade of 8 is considered a loss. Commercial loans that are pass-rated are considered to be of acceptable credit risk. Commercial loans graded a 5 (special mention) are considered to be watch list credits and a higher loan loss reserve percentage is allocated to these loans. Loans classified as special mention have potential weaknesses that require management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution’s credit position at some future date. Commercial loans graded 6 (substandard), also considered to be watch list credits, are considered to represent higher credit risk and, as a result, a higher loan loss reserve percentage is allocated to these loans. Loans classified as substandard are inadequately protected by the current sound worth and paying capacity of the obligor or the value of the collateral pledged, if any. Loans so classified have a well defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that Park will sustain some loss if the deficiencies are not corrected. Commercial loans that are graded a 7 (doubtful) are shown as nonaccrual and Park generally charges these loans down to their fair value by taking a partial charge-off or recording a specific reserve. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Certain 6-rated loans and all 7-rated loans are included within the impaired category. A loan is deemed impaired when management determines the borrower's ability to perform in accordance with the contractual loan agreement is in doubt. Any commercial loan graded an 8 (loss) is completely charged off.

The tables below present the recorded investment by loan grade at March 31, 2015 and December 31, 2014 for all commercial loans:

	March 31, 2015				
(In thousands)	5 Rated	6 Rated	Impaired	Pass Rated	Recorded Investment
Commercial, financial and agricultural *	$3,017	$595	$20,578	$823,408	$847,598
Commercial real estate *	12,389	1,496	16,900	1,044,009	1,074,794
Construction real estate:					
SEPH commercial land and development *	—	—	2,077	106	2,183
Remaining commercial	4,006	—	5,725	100,382	110,113
Residential real estate:					
Commercial	2,185	436	25,219	385,918	413,758
Leases	—	—	—	3,242	3,242
Total commercial loans	$21,597	$2,527	$70,499	$2,357,065	$2,451,688

* Included within commercial, financial and agricultural loans, commercial real estate loans, and SEPH commercial land and development loans is an immaterial amount of consumer loans that are not broken out by class.

Table of Contents

	December 31, 2014				
(In thousands)	5 Rated	6 Rated	Impaired	Pass Rated	Recorded Investment
Commercial, financial and agricultural *	$1,874	$1,201	$19,123	$837,555	$859,753
Commercial real estate *	8,448	1,712	21,989	1,041,034	1,073,183
Construction real estate:					
SEPH commercial land and development *	—	—	2,078	117	2,195
Remaining commercial	3,349	57	5,609	106,424	115,439
Residential real estate:					
Commercial	2,581	598	24,930	390,541	418,650
Leases	—	—	—	3,188	3,188
Total Commercial Loans	$16,252	$3,568	$73,729	$2,378,859	$2,472,408

* Included within commercial, financial and agricultural loans, commercial real estate loans, and SEPH commercial land and development loans is an immaterial amount of consumer loans that are not broken out by class.

Troubled Debt Restructurings (TDRs)

Management classifies loans as TDRs when a borrower is experiencing financial difficulties and Park has granted a concession to the borrower as part of a modification or in the loan renewal process. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of the borrower's debt in the foreseeable future without the modification. This evaluation is performed in accordance with the Company’s internal underwriting policy. Management’s policy is to modify loans by extending the term or by granting a temporary or permanent contractual interest rate below the market rate, not by forgiving debt. Certain loans which were modified during the three- month periods ended March 31, 2015 and March 31, 2014 did not meet the definition of a TDR as the modification was a delay in a payment that was considered to be insignificant. Management considers a forbearance period of up to three months or a delay in payment of up to 30 days to be insignificant. TDRs may be classified as accruing if the borrower has been current for a period of at least six months with respect to loan payments and management expects that the borrower will be able to continue to make payments in accordance with the terms of the restructured note. Management reviews all accruing TDRs quarterly to ensure payments continue to be made in accordance with the modified terms.

Management reviews renewals/modifications of loans previously identified as TDRs to consider if it is appropriate to remove the TDR classification. If the borrower is no longer experiencing financial difficulty and the renewal/modification does not contain a concessionary interest rate or other concessionary terms, management considers the potential removal of the TDR classification. If deemed appropriate, the TDR classification is removed as the borrower has complied with the terms of the loan at the date of the renewal/modification and there was a reasonable expectation that the borrower would continue to comply with the terms of the loan subsequent to the date of the renewal/modification. The majority of these TDRs were originally considered restructurings in a prior year as a result of a renewal/modification with an interest rate that was not commensurate with the risk of the underlying loan at the time of the renewal/modification. The TDR classification was not removed on any loans during the three months ended March 31, 2015. During the three months ended March 31, 2014, Park removed the TDR classification on $1.0 million of loans that met the requirements discussed above.

At March 31, 2015 and December 31, 2014, there were $42.6 million and $47.5 million, respectively, of TDRs included in the nonaccrual loan totals. At March 31, 2015 and December 31, 2014, $18.1 million and $15.7 million of these nonaccrual TDRs were performing in accordance with the terms of the restructured note. As of March 31, 2015 and December 31, 2014, there were $16.9 million and $16.3 million, respectively, of TDRs included in accruing loan totals. Management will continue to review the restructured loans and may determine it appropriate to move certain of the loans back to accrual status in the future.

At March 31, 2015 and December 31, 2014, Park had commitments to lend $2.2 million and $1.4 million, respectively, of additional funds to borrowers whose outstanding loan terms had been modified in a TDR.

Table of Contents

The specific reserve related to TDRs at March 31, 2015 and December 31, 2014 was $3.5 million and $2.4 million, respectively. Modifications made in 2014 and 2015 were largely the result of renewals and extending the maturity date of the loan at terms consistent with the original note. These modifications were deemed to be TDRs primarily due to Park's conclusion that the borrower would likely not have qualified for similar terms through another lender. Many of the modifications deemed to be TDRs were previously identified as impaired loans, and thus were also previously evaluated for impairment under ASC 310. Additional specific reserves of $857,000 and $18,000 were recorded during the three-month periods ended March 31, 2015 and March 31, 2014, respectively, as a result of TDRs identified in the respective year.

The terms of certain other loans were modified during the three-month periods ended March 31, 2015 and March 31, 2014 that did not meet the definition of a TDR. Modified substandard commercial loans which did not meet the definition of a TDR had a total recorded investment as of March 31, 2015 and March 31, 2014 of $131,000 and $392,000, respectively. The renewal/modification of these loans: (1) involved a renewal/modification of the terms of a loan to a borrower who was not experiencing financial difficulties, (2) resulted in a delay in a payment that was considered to be insignificant, or (3) resulted in Park obtaining additional collateral or guarantees that improved the likelihood of the ultimate collection of the loan such that the modification was deemed to be at market terms. Modified consumer loans which did not meet the definition of a TDR had a total recorded investment as of March 31, 2015 and March 31, 2014 of $4.5 million and $5.7 million, respectively. Many of these loans were to borrowers who were not experiencing financial difficulties but who were looking to reduce their cost of funds.

The following tables detail the number of contracts modified as TDRs during the three-month periods ended March 31, 2015 and March 31, 2014, as well as the recorded investment of these contracts at March 31, 2015 and March 31, 2014. The recorded investment pre- and post-modification is generally the same due to the fact that Park does not typically provide for forgiveness of principal.

	Three Months Ended March 31, 2015			
(In thousands)	Number of Contracts	Accruing	Nonaccrual	Total Recorded Investment
Commercial, financial and agricultural	13	$398	$597	$995
Commercial real estate	6	—	1,314	1,314
Construction real estate:				
SEPH commercial land and development	—	—	—	—
Remaining commercial	—	—	—	—
Mortgage	1	—	21	21
Installment	—	—	—	—
Residential real estate:				
Commercial	3	—	513	513
Mortgage	7	328	206	534
HELOC	10	193	108	301
Installment	—	—	—	—
Consumer	66	29	463	492
Total loans	106	$948	$3,222	$4,170

Table of Contents

(In thousands)	Three Months Ended March 31, 2014 Number of Contracts	Accruing	Nonaccrual	Total Recorded Investment
Commercial, financial and agricultural	5	$—	$60	$60
Commercial real estate	3	161	523	684
Construction real estate:				
SEPH commercial land and development	—	—	—	—
Remaining commercial	—	—	—	—
Mortgage	—	—	—	—
Installment	—	—	—	—
Residential real estate:				
Commercial	2	—	68	68
Mortgage	7	164	495	659
HELOC	—	—	—	—
Installment	4	36	36	72
Consumer	71	382	108	490
Total loans	92	$743	$1,290	$2,033

Of those loans which were modified and determined to be a TDR during the three-month period ended March 31, 2015, $1.1 million were on nonaccrual status as of December 31, 2014. Of those loans which were modified and determined to be a TDR during the three-month period ended March 31, 2014, $900,000 were on nonaccrual status as of December 31, 2013.

The following tables present the recorded investment in financing receivables which were modified as TDRs within the previous 12 months and for which there was a payment default during the three-month periods ended March 31, 2015 and March 31, 2014, respectively. For these tables, a loan is considered to be in default when it becomes 30 days contractually past due under the modified terms. The additional allowance for loan loss resulting from the defaults on TDR loans was immaterial.

(In thousands)	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial, financial and agricultural	3	$70	7	$89
Commercial real estate	—	—	5	872
Construction real estate:				
SEPH commercial land and development	—	—	—	—
Remaining commercial	—	—	—	—
Mortgage	—	—	—	—
Installment	—	—	—	—
Residential real estate:				
Commercial	—	—	2	302
Mortgage	13	689	19	1,144
HELOC	—	—	—	—
Installment	1	8	6	108
Consumer	47	349	49	345
Leases	—	—	—	—

Total loans	64	$1,116	88	$2,860

Of the $1.1 million in modified TDRs which defaulted during the three months ended March 31, 2015, there were no accruing loans. Of the $2.9 million in modified TDRs which defaulted during the three months ended March 31, 2014, $499,000 were accruing loans and $2.4 million were nonaccrual loans.

Table of Contents

Note 4 – Allowance for Loan Losses

The allowance for loan losses is that amount management believes is adequate to absorb probable incurred credit losses in the loan portfolio based on management's evaluation of various factors including overall growth in the loan portfolio, an analysis of individual loans, prior and current loss experience, and current economic conditions. A provision for loan losses is charged to operations based on management's periodic evaluation of these and other pertinent factors as discussed within Note 1 of the Notes to Consolidated Financial Statements included in Park's 2014 Annual Report.

Management updates historical losses annually in the fourth quarter, or more frequently as deemed appropriate. With the inclusion of 2013 net charge-off information, management concluded that it was no longer appropriate to calculate the historical loss average with an even allocation across the five-year period. Rather than apply a 20% allocation to each year in the calculation of the historical annualized loss factor, management determined that it was appropriate to more heavily weight those years with higher losses in the historical loss calculation, given the continued uncertainty in the current economic environment. Specifically, rather than applying equal percentages to each year in the historical loss calculation, management applied more weight to the 2009-2011 periods compared to the 2012 and 2013 periods.

With the inclusion of 2014 net charge-off information in the fourth quarter of 2014, management extended the historical loss period to six years. Due to the same factors that management considered in 2013, management applied more weight to 2009 through 2011 periods compared to the 2012 through 2014 periods.

The activity in the allowance for loan losses for the three months ended March 31, 2015 and March 31, 2014 is summarized below.

	Three Months Ended March 31, 2015						
(In thousands)	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							
Beginning balance	$10,719	$8,808	$8,652	$14,772	$11,401	$—	$54,352
Charge-offs	352	130	—	422	2,514	—	3,418
Recoveries	291	674	285	924	666	2	2,842
Net charge-offs/(recoveries)	61	(544)	(285)	(502)	1,848	(2)	576
Provision/(recovery)	703	(56)	(182)	(762)	1,931	(2)	1,632
Ending balance	$11,361	$9,296	$8,755	$14,512	$11,484	$—	$55,408

	Three Months Ended March 31, 2014						
(In thousands)	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							
Beginning balance	$14,218	$15,899	$6,855	$14,251	$8,245	$—	$59,468
Charge-offs	639	794	8	591	1,795	—	3,827
Recoveries	247	1,558	794	1,227	3,014	1	6,841
Net charge-offs/(recoveries)	392	(764)	(786)	(636)	(1,219)	(1)	(3,014)

Provision/(recovery)	(64)	(909)	480	(680)	(1,051)	(1)	(2,225)
Ending balance	$13,762	$15,754	$8,121	$14,207	$8,413	$—	$60,257

Loans collectively evaluated for impairment in the following tables include all performing loans at March 31, 2015 and December 31, 2014, as well as nonperforming loans internally classified as consumer loans. Nonperforming consumer loans are not typically individually evaluated for impairment, but receive a portion of the statistical allocation of the allowance for loan losses. Loans individually evaluated for impairment include all impaired loans internally classified as commercial loans at March 31, 2015 and December 31, 2014, which are evaluated for impairment in accordance with U.S. GAAP (see Note 1 of the Notes to Consolidated Financial Statements included in Park's 2014 Annual Report).

Table of Contents

The composition of the allowance for loan losses at March 31, 2015 and December 31, 2014 was as follows:

	March 31, 2015						
(In thousands)	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							
Ending allowance balance attributed to loans:							
Individually evaluated for impairment	$1,839	$645	$ 2,157	$423	$—	$—	$5,064
Collectively evaluated for impairment	9,522	8,651	6,598	14,089	11,484	—	50,344
Total ending allowance balance	$11,361	$9,296	$ 8,755	$14,512	$11,484	$—	$55,408

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