PARK NATIONAL CORP /OH/
Form 10-Q
May 04, 2011

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

FORM 10-Q

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

For the quarterly period ended March 31, 2011

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 Number 1-13006

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

Ohio	31-1179518
(State or other jurisdiction of incorporation or organization)	(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 x 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 x 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	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
(Do not check if 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 x

15,398,919 Common shares, no par value per share, outstanding at May 2, 2011.

PARK NATIONAL CORPORATION

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

	March 31, 2011	December 31, 2010
Assets:		
Cash and due from banks	$111,472	$ 109,058
Money market instruments	22,775	24,722
Cash and cash equivalents	134,247	133,780
Investment securities		
Securities available-for-sale, at fair value (amortized cost of $1,349,431 and $1,274,258 at March 31, 2011 and December 31, 2010)	1,362,893	1,297,522
Securities held-to-maturity, at amortized cost (fair value of $625,334 and $686,114 at March 31, 2011 and December 31, 2010)	614,064	673,570
Other investment securities	68,699	68,699
Total investment securities	2,045,656	2,039,791
Loans	4,750,975	4,732,685
Allowance for loan losses	(126,859)	(121,397)
Net loans	4,624,116	4,611,288
Bank owned life insurance	150,683	146,450
Goodwill and other intangible assets	77,708	78,377
Bank premises and equipment, net	69,673	69,567
Other real estate owned	47,133	44,325
Accrued interest receivable	25,083	24,137
Mortgage loan servicing rights	10,365	10,488
Other	153,739	140,174
Total assets	$7,338,403	$ 7,298,377
Liabilities and Stockholders' Equity:		
Deposits:		
Noninterest bearing	$955,005	$ 937,719
Interest bearing	4,359,673	4,157,701
Total deposits	5,314,678	5,095,420
Short-term borrowings	316,719	663,669
Long-term debt	786,709	636,733
Subordinated debentures and notes	75,250	75,250
Accrued interest payable	6,255	6,123
Other	93,554	75,358
Total liabilities	6,593,165	6,552,553
COMMITMENTS AND CONTINGENCIES		

Stockholders' equity:		
Preferred stock (200,000 shares authorized; 100,000 shares issued with $1,000 per share liquidation preference)	97,504	97,290
Common stock (No par value; 20,000,000 shares authorized; 16,151,052 shares issued at March 31, 2011 and 16,151,062 shares issued at December 31, 2010)	301,203	301,204
Common stock warrants	4,473	4,473
Retained earnings	427,897	422,458
Treasury stock (752,129 shares at March 31, 2011 and 752,128 shares at December 31, 2010)	(77,733)	(77,733)
Accumulated other comprehensive (loss), net of taxes	(8,106)	(1,868)
Total stockholders' equity	745,238	745,824
Total liabilities and stockholders' equity	$7,338,403	$ 7,298,377

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Interest and dividend income:		
Interest and fees on loans	$65,454	$66,441
Interest and dividends on:		
Obligations of U.S. Government, its agencies and other securities	19,053	20,475
Obligations of states and political subdivisions	149	217
Other interest income	6	69
Total interest and dividend income	84,662	87,202
Interest expense:		
Interest on deposits:		
Demand and savings deposits	991	1,775
Time deposits	6,734	10,650
Interest on borrowings:		
Short-term borrowings	267	344
Long-term debt	7,357	7,053
Total interest expense	15,349	19,822
Net interest income	69,313	67,380
Provision for loan losses	13,500	16,550
Net interest income after provision for loan losses	55,813	50,830
Other income:		
Income from fiduciary activities	3,722	3,422
Service charges on deposit accounts	4,245	4,746
Other service income	2,301	2,982
Checkcard fee income	2,976	2,444
Bank owned life insurance income	1,229	1,216
ATM fees	654	765
OREO devaluations	(4,394)	(1,145)
Other	2,438	2,280
Total other income	13,171	16,710
Gain on sale of securities	6,635	8,304

Continued

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

	Three Months Ended March 31, 2011	2010
Other expense:		
Salaries and employee benefits	$25,064	$25,171
Occupancy expense	3,000	3,117
Furniture and equipment expense	2,657	2,632
Data processing fees	1,253	1,593
Professional fees and services	4,874	4,856
Amortization of intangibles	669	936
Marketing	623	902
Insurance	2,269	2,198
Communication	1,556	1,769
State taxes	457	845
Other expense	3,924	3,871
Total other expense	46,346	47,890
Income before income taxes	29,273	27,954
Income taxes	7,895	7,175
Net income	$21,378	$20,779
Preferred stock dividends and accretion	1,464	1,452
Net income available to common shareholders	$19,914	$19,327
Per Common Share:		
Net income available to common shareholders		
Basic	$1.29	$1.30
Diluted	$1.29	$1.30
Weighted average common shares outstanding		
Basic	15,398,930	14,882,774
Diluted	15,403,420	14,882,774
Cash dividends declared	$0.94	$0.94

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

Three Months ended March 31, 2011 and 2010	Preferred Stock	Common Stock	Retained Earnings	Treasury Stock at Cost	Accumulated Other Comprehensive Income/(Loss)	Comprehensive Income
Balance at December 31, 2009	$ 96,483	$ 306,569	$ 423,872	$ (125,321)	$ 15,661	
Net Income			20,779			$ 20,779
Other comprehensive income, net of tax:						
Unrealized net holding loss on cash flow hedge, net of income taxes of $(60)					(111)	(111)
Unrealized net holding loss on securities available-for-sale, net of income taxes of $(966)					(1,793)	(1,793)
Total comprehensive income						$ 18,875
Cash dividends on common stock at $0.94 per share			(13,990)			
Cash payment for fractional shares in dividend reinvestment plan		(1)				
Accretion of discount on preferred stock	202		(202)			
Preferred stock dividends			(1,250)			
Balance at March 31, 2010	$ 96,685	$ 306,568	$ 429,209	$ (125,321)	$ 13,757	
Balance at December 31, 2010	$ 97,290	$ 305,677	$ 422,458	$ (77,733)	$ (1,868)	
Net Income			21,378			$ 21,378
Other comprehensive loss, net of tax:						
Unrealized net holding gain on cash flow hedge, net of income taxes of $71					133	133
Unrealized net holding (loss) on securities					(6,371)	(6,371)

available-for-sale, net of income taxes of $(3,431)						
Total comprehensive income						$ 15,140
Cash dividends on common stock at $0.94 per share			(14,475)			
Cash payment for fractional shares in dividend reinvestment plan		(1)				
Accretion of discount on preferred stock	214		(214)			
Preferred stock dividends			(1,250)			
Balance at March 31, 2011	$ 97,504	$ 305,676	$ 427,897	$ (77,733)	$ (8,106)	

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

	Three Months Ended March 31, 2011	2010
Operating activities:		
Net income	$21,378	$20,779
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, accretion and amortization	2,784	2,205
Provision for loan losses	13,500	16,550
Other-than-temporary impairment on investment securities	-	-
Amortization of core deposit intangibles	669	936
Realized net investment security gains	(6,635)	(8,304)
OREO devaluations	4,394	1,145
Changes in assets and liabilities:		
(Increase) in other assets	(21,217)	(10,678)
(Decrease) in other liabilities	(6,539)	(4,079)
Net cash provided by operating activities	$8,334	$18,554
Investing activities:		
Proceeds from sales of available-for-sale securities	$113,105	$284,031
Proceeds from maturity of:		
Available-for-sale securities	75,071	269,462
Held-to-maturity securities	59,506	22,478
Purchases of:		
Available-for-sale securities	(231,714)	(533,677)
Held-to-maturity securities	-	(2,205)
Net (increase) decrease in loans	(25,403)	30,349
Purchases of bank owned life insurance, net	(3,000)	(4,562)
Purchases of premises and equipment, net	(1,990)	(1,862)
Net cash (used in) provided by investing activities	$(14,425)	$64,014

Continued

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

	Three Months Ended March 31, 2011	2010
Financing activities:		
Net increase in deposits	$219,258	$80,806
Net (decrease) in short-term borrowings	(346,950)	(57,144)
Proceeds from issuance of long-term debt	150,000	-
Repayment of long-term debt	(24)	(20)
Cash payment for fractional shares in dividend reinvestment plan	(1)	(1)
Cash dividends paid on common and preferred stock	(15,725)	(15,240)
Net cash provided by financing activities	$6,558	$8,401
Increase in cash and cash equivalents	467	90,969
Cash and cash equivalents at beginning of year	133,780	159,091
Cash and cash equivalents at end of period	$134,247	$250,060
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$15,217	$20,494
Income taxes	$-	$-
Non cash activities:		
Securities acquired through payable	$25,000	$112,450

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 (the “Registrant”, “Corporation”, “Company”, or “Park”) and its subsidiaries. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of results of operations for the interim periods included herein have been made. The results of operations for the three month period ended March 31, 2011 are not necessarily indicative of the operating results to be anticipated for the fiscal year ending December 31, 2011.

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 changes in stockholders’ equity and condensed statements of cash flows in conformity with U.S. generally accepted accounting principles (“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, 2010 from Park’s 2010 Annual Report to Shareholders (“2010 Annual Report”).

Park’s significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in Park’s 2010 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. Management has evaluated events occurring subsequent to the balance sheet date, determining no events require additional disclosure in these consolidated condensed financial statements.

Note 2 – Recent Accounting Pronouncements

Adoption of New Accounting Pronouncements:

Improving Disclosures About Fair Value Measurements: In January 2010, the FASB issued an amendment to Fair Value Measurements and Disclosures, Topic 820, Improving Disclosures About Fair Value Measurements. This amendment requires new disclosures regarding significant transfers in and out of Level 1 and 2 fair value measurements and the reasons for the transfers. This amendment also requires that a reporting entity present separately information about purchases, sales, issuances and settlements, on a gross basis rather than a net basis for activity in Level 3 fair value measurements using significant unobservable inputs. This amendment also clarifies existing disclosures on the level of disaggregation, in that the reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities, and that a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for Level 2 and 3. The new disclosures and clarifications of existing disclosures for ASC 820 are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of ASC 820 did not have a material effect on the Company’s consolidated financial statements.

Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses: In July 2010, FASB issued Accounting Standards Update 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses (ASU 2010-20), to address concerns about the sufficiency, transparency, and robustness of credit risk disclosures for finance receivables and the related allowance for credit losses. This ASU requires new and enhanced disclosures at disaggregated levels, specifically defined as “portfolio segments” and “classes”. Among other things, the expanded disclosures include roll-forward schedules of the allowance for credit losses and information regarding the credit quality of receivables as of the end of a reporting period. New and enhanced disclosures are required for interim and annual periods ending after December 15, 2010, although the disclosures of reporting period activity are required for interim and annual periods beginning after December 15, 2010. The adoption of the new guidance impacted interim and annual disclosures included in the Company’s consolidated financial statements.

No. 2011-01 - Receivables (Topic 310) Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2001-20: In January 2011, FASB issued Accounting Standards Update 2011-01, Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 (ASU 2011-01). ASU 2011-01 was issued as a result of concerns raised from stakeholders that the introduction of new disclosure requirements (paragraphs 310-10-50-31 through 50-34 of the FASB Accounting Standards Codification) about troubled debt restructurings in one reporting period followed by a change in what constitutes a troubled debt restructuring shortly thereafter would be burdensome for preparers and may not provide financial statement users with useful information.

No. 2011-02 – Receivables (Topic 310) A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring: In April 2011, FASB issued Accounting Standards Update 2011-02, A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring (ASU 2011-02). The ASU provides additional guidance to creditors for evaluating whether a modification or restructuring of a receivable is a troubled debt restructuring (“TDR”). The new guidance requires creditors to evaluate modifications and restructurings of receivables using a more principles-based approach, which may result in more modifications and restructurings being considered TDRs. Additionally, creditors will be required to provide additional disclosures about their TDR activities in accordance with the requirements of ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses which was deferred by ASU 2011-01 Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20 (ASU 2011-01). The new guidance will be effective for the first interim or annual period beginning on or after June 15, 2011, with retrospective application required to the beginning of the annual period of adoption. Disclosures requirements will be effective for the first interim and annual period beginning on or after June 15, 2011. Management is currently working through the guidance to determine the impact, if any, to the consolidated financial statements.

Note 3 – Goodwill and Intangible Assets

The following table shows the activity in goodwill and core deposit intangibles for the first three months of 2011.

(in thousands)	Goodwill	Core Deposit Intangibles	Total
December 31, 2010	$ 72,334	$ 6,043	$ 78,377
Amortization	-	669	669
March 31, 2011	$ 72,334	$ 5,374	$ 77,708

The core deposit intangibles are being amortized to expense principally on the straight-line method, over periods ranging from six to ten years. Management expects that the core deposit intangibles amortization expense will be approximately $669,000 for the second, third and fourth quarters of 2011.

Core deposit intangibles amortization expense is projected to be as follows for each of the following years:

(in thousands)	Annual Amortization
Remainder of 2011	$ 2,007
2012	2,677
2013	690
Total	$ 5,374

Note 4 – Loans

The composition of the loan portfolio, by class of loan, as of March 31, 2011 and December 31, 2010 was as follows:

	March 31, 2011			December 31, 2010		
(In thousands)	Loan Balance	Accrued Interest Receivable	Recorded Investment	Loan Balance	Accrued Interest Receivable	Recorded Investment
Commercial, financial and agricultural *	$727,993	$2,967	$730,960	$737,902	$2,886	$740,788
Commercial real estate *	1,254,636	4,956	1,259,592	1,226,616	4,804	1,231,420
Construction real estate:						
Vision commercial land and development *	161,140	290	161,430	171,334	282	171,616
Remaining commercial	191,770	637	192,407	195,693	622	196,315
Mortgage	21,685	74	21,759	26,326	95	26,421
Installment	14,738	63	14,801	13,127	54	13,181
Residential real estate						
Commercial	463,308	1,445	464,753	464,903	1,403	466,306
Mortgage	944,309	2,955	947,264	906,648	2,789	909,437
HELOC	256,329	959	257,288	260,463	1,014	261,477
Installment	56,108	223	56,331	60,195	255	60,450
Consumer	656,618	2,887	659,505	666,871	3,245	670,116
Leases	2,341	44	2,385	2,607	56	2,663
Total loans	$4,750,975	$17,500	$4,768,475	$4,732,685	$17,505	$4,750,190

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

The following tables present the recorded investment in nonaccrual, restructured, and loans past due 90 days or more and still accruing by class of loans as of March 31, 2011 and December 31, 2010:

	March 31, 2011			
(In thousands)	Nonaccrual Loans	Restructured loans	Loans past due 90 days or more and accruing	Total nonperforming loans
Commercial, financial and agricultural	$19,464	$ -	$ -	$ 19,464
Commercial real estate	53,259	-	-	53,259
Construction real estate:				
Vision commercial land and development	82,799	-	-	82,799
Remaining commercial	26,126	-	-	26,126
Mortgage	61	-	-	61
Installment	413	-	-	413
Residential real estate				
Commercial	58,123	-	-	58,123
Mortgage	32,927	260	1,526	34,713
HELOC	1,944	-	-	1,944
Installment	1,581	-	86	1,667
Consumer	2,122	-	665	2,787
Leases	-	-	-	-
Total loans	$278,819	$ 260	$ 2,277	$ 281,356

	December 31, 2010			
(In thousands)	Nonaccrual Loans	Restructured loans	Loans past due 90 days or more and accruing	Total nonperforming loans
Commercial, financial and agricultural	$19,276	$ -	$ -	$ 19,276
Commercial real estate	57,941	-	20	57,961
Construction real estate:				
Vision commercial land and development	87,424	-	-	87,424
Remaining commercial	27,080	-	-	27,080
Mortgage	354	-	-	354
Installment	417	-	13	430
Residential real estate				
Commercial	60,227	-	-	60,227
Mortgage	32,479	-	2,175	34,654
HELOC	964	-	149	1,113
Installment	1,195	-	277	1,472
Consumer	1,911	-	1,059	2,970
Leases	-	-	-	-
Total loans	$289,268	$ -	$ 3,693	$ 292,961

The following table provides additional information regarding those nonaccrual loans that are individually evaluated for impairment and those collectively evaluated for impairment as of March 31, 2011 and December 31, 2010.

	March 31, 2011		
(In thousands)	Nonaccrual Loans	Loans individually evaluated for impairment	Loans collectively evaluated for impairment
Commercial, financial and agricultural	$19,464	$ 19,391	$ 73
Commercial real estate	53,259	53,259	-
Construction real estate:			
Vision commercial land and development	82,799	82,060	739
Remaining commercial	26,126	26,126	-
Mortgage	61	-	61
Installment	413	-	413
Residential real estate:			
Commercial	58,123	58,123	-
Mortgage	32,927	-	32,927
HELOC	1,944	-	1,944
Installment	1,581	-	1,581
Consumer	2,122	-	2,122
Leases	-	-	-
Total loans	$278,819	$ 238,959	$ 39,860

	December 31, 2010		
(In thousands)	Nonaccrual Loans	Loans individually evaluated for impairment	Loans collectively evaluated for impairment
Commercial, financial and agricultural	$19,276	$ 19,205	$ 71
Commercial real estate	57,941	57,930	11
Construction real estate:			
Vision commercial land and development	87,424	86,491	933
Remaining commercial	27,080	27,080	—
Mortgage	354	—	354
Installment	417	—	417
Residential real estate:			
Commercial	60,227	60,227	—
Mortgage	32,479	—	32,479
HELOC	964	—	964
Installment	1,195	—	1,195
Consumer	1,911	—	1,911
Leases	-	—	—
Total loans	$289,268	$ 250,933	$ 38,335

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

The following tables present loans individually evaluated for impairment by class of loans as of March 31, 2011 and December 31, 2010.

	March 31, 2011		
(in thousands)	Unpaid principal balance	Recorded Investment	Allowance for loan losses allocated
With no related allowance recorded			
Commercial, financial and agricultural	$7,226	$6,819	$ -
Commercial real estate	22,864	17,653	-
Construction real estate:			
Vision commercial land and development	11,632	9,333	-
Remaining commercial	13,118	12,251	-
Residential real estate:			
Commercial	39,886	38,072	-
With an allowance recorded			
Commercial, financial and agricultural	14,197	12,572	2,980
Commercial real estate	38,583	35,606	9,760
Construction real estate:			
Vision commercial land and development	100,966	72,727	25,543
Remaining commercial	22,373	13,875	2,842
Residential real estate:			
Commercial	23,510	20,051	6,162
Total	$294,355	$238,959	$ 47,287

	December 31, 2010		
(in thousands)	Unpaid principal balance	Recorded Investment	Allowance for loan losses allocated
With no related allowance recorded			
Commercial, financial and agricultural	$9,347	$8,891	$ -
Commercial real estate	24,052	19,697	-
Construction real estate:			
Vision commercial land and development	23,021	20,162	-
Remaining commercial	15,192	14,630	-
Residential real estate:			
Commercial	51,261	47,009	-
With an allowance recorded			
Commercial, financial and agricultural	11,801	10,314	3,028
Commercial real estate	42,263	38,233	10,001
Construction real estate:			
Vision commercial land and development	92,122	66,329	23,585
Remaining commercial	20,676	12,450	2,802
Residential real estate:			
Commercial	14,799	13,218	4,043
Total	$304,534	$250,933	$ 43,459

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, 2011 and December 31, 2010, there were $10.6 million and $12.5 million, respectively, of partial charge-offs on loans individually evaluated for impairment with no related allowance recorded and $44.8 million and $41.1 million, 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, 2011 and December 31, 2010, of $47.3 million and $43.5 million, respectively, related to loans with a recorded investment of $154.8 million and $140.5 million.

The following table presents the average recorded investment and interest income recognized on loans individually evaluated for impairment for the three months ended March 31, 2011:

	Three months ended March 31, 2011		
(in thousands)	Recorded investment as of March 31, 2011	Average recorded investment	Interest income recognized
Commercial, financial and agricultural	$ 19,391	$ 19,515	$ 65
Commercial real estate	53,259	55,076	70
Construction real estate:			
Vision commercial land and development	82,060	84,272	-
Remaining commercial	26,126	26,789	78
Residential real estate:			
Commercial	58,123	59,465	139
Consumer	-	22	-
Total	$ 238,959	$ 245,139	$ 352

The following tables present the aging of the recorded investment in past due loans as of March 31, 2011 and December 31, 2010 by class of loans.

	March 31, 2011				
(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	$4,573	$ 14,185	$ 18,758	$ 712,202	$730,960
Commercial real estate	7,187	49,324	56,511	1,203,081	1,259,592
Construction real estate:					
Vision commercial land and development	4,077	72,679	76,756	84,674	161,430
Remaining commercial	47	18,312	18,359	174,048	192,407
Mortgage	47	61	108	21,651	21,759
Installment	354	386	740	14,061	14,801
Residential real estate					
Commercial	3,814	25,576	29,390	435,363	464,753
Mortgage	15,076	22,782	37,858	909,406	947,264
HELOC	551	1,101	1,652	255,636	257,288
Installment	1,014	972	1,986	54,345	56,331
Consumer	7,489	2,117	9,606	649,899	659,505
Leases	5	-	5	2,380	2,385
Total loans	$44,234	$ 207,495	$ 251,729	$ 4,516,746	$4,768,475

* Includes $2.2 million of loans past due 90 days or more and accruing.

	December 31, 2010				
(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	$2,247	$ 15,622	$ 17,869	$ 722,919	$740,788
Commercial real estate	9,521	53,269	62,790	1,168,630	1,231,420
Construction real estate:					
Vision commercial land and development	2,406	65,130	67,536	104,080	171,616
Remaining commercial	141	19,687	19,828	176,487	196,315
Mortgage	479	148	627	25,794	26,421
Installment	235	399	634	12,547	13,181
Residential real estate					
Commercial	3,281	26,845	30,126	436,180	466,306
Mortgage	17,460	24,422	41,882	867,555	909,437
HELOC	1,396	667	2,063	259,414	261,477
Installment	1,018	892	1,910	58,540	60,450
Consumer	11,204	2,465	13,669	656,447	670,116
Leases	5	-	5	2,658	2,663
Total loans	$49,393	$ 209,546	$ 258,939	$ 4,491,251	$4,750,190

* Includes $3.6 million of loans past due 90 days or more and accruing.

Management's policy is to initially place all renegotiated loans (troubled debt restructurings) on nonaccrual status. At March 31, 2011 and December 31, 2010, there were $81.1 million and $80.7 million, respectively, of troubled debt restructurings included in nonaccrual loan totals. Many of these troubled debt restructurings are performing under the renegotiated terms. At March 31, 2011 and December 31, 2010, $42.3 million and $50.3 million of the total troubled debt restructurings were included within current loans above. Management will continue to review the renegotiated loans and may determine it appropriate to move certain of the loans back to accrual status in the future. At March 31, 2011 and December 31, 2010, Park had commitments to lend $289,000 and $434,000, respectively, of additional funds to borrowers whose terms had been modified in a troubled debt restructuring.

Management utilizes past due information as a credit quality indicator across the loan portfolio. 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) throughout the consumer loan segment. The primary credit indicator for commercial loans is based on an internal grading system that grades all commercial loans from 1 to 8. Credit grades are continuously monitored by the respective 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 with grades of 1 to 4 (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 deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loans or of the institution's credit position at some future date. Commercial loans graded 6 (substandard), also considered 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 loans are inadequately protected by the current sound worth and paying capacity of the obligor or 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 the institution will sustain some loss if the deficiencies are not corrected. Commercial loans that are graded a 7 (doubtful) are shown as nonperforming 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. Any commercial loan graded an 8 (loss) is completely charged-off. The tables below present the recorded investment by loan grade at March 31, 2011 and December 31, 2010 for all commercial loans.

	March 31, 2011				
(in thousands)	5 Rated	6 Rated	Nonaccrual	Pass Rated	Recorded Investment
Commercial, financial and agricultural:	$23,616	$11,122	$19,464	$676,758	$730,960
Commercial real estate:	72,684	23,943	53,259	1,109,706	1,259,592
Construction real estate:					
Vision commercial land and development	13,394	7,399	82,799	57,838	161,430
Remaining commercial	15,147	39,159	26,126	111,975	192,407
Residential real estate:					
Commercial	27,311	17,948	58,123	361,371	464,753
Leases	-	-	-	2,385	2,385
Total Commercial Loans	$152,152	$99,571	$239,771	$2,320,033	$2,811,527

	December 31, 2010				
(in thousands)	5 Rated	6 Rated	Nonaccrual	Pass Rated	Recorded Investment
Commercial, financial and agricultural:	$26,322	$11,447	$19,276	$683,743	$740,788
Commercial real estate:	57,394	26,992	57,941	1,089,093	1,231,420
Construction real estate:					
Vision commercial land and development	10,220	7,941	87,424	66,031	171,616
Remaining commercial	14,021	39,062	27,080	116,152	196,315
Residential real estate:					
Commercial	29,206	18,117	60,227	358,756	466,306
Leases	-	-	-	2,663	2,663
Total Commercial Loans	$137,163	$103,559	$251,948	$2,316,438	$2,809,108

Note 5 – 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 Park's 2010 Annual Report.

The activity in the allowance for loan losses for the three months ended March 31, 2011 and March 31, 2010 is summarized. As noted below, management included a reallocation of the beginning allowance for credit losses balance, which primarily impacted the commercial loan segments of the loan portfolio. At December 31, 2010, management's allowance calculation was performed in the aggregate for all commercial loans and then allocated across each segment of the commercial loan portfolio on a pro rata basis. During the first quarter of 2011, management determined that it would be more appropriate to perform the allowance calculation at the segment level and has provided an adjusted beginning balance for the allowance for credit losses in the table below.

	Three months ended March 31, 2011						
(In thousands)	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for credit losses:							
Beginning balance:	$13,584	$28,515	$46,194	$25,845	$7,228	$31	$121,397
Reallocation of allowance	(1,888)	(6,604)	5,759	2,948	(189)	(26)	-
Adjusted beginning balance:	11,696	21,911	51,953	28,793	7,039	5	121,397
Charge-offs	734	1,785	3,420	2,487	1,973	-	10,399
Recoveries	569	802	96	501	390	3	2,361
Net Charge-offs	165	983	3,324	1,986	1,583	(3)	8,038
Provision	260	1,646	5,043	4,746	1,809	(4)	13,500
Ending balance:	$11,791	$22,574	$53,672	$31,553	$7,265	$4	$126,859

The activity in the allowance for loan losses for the three months ended March 31, 2010 is summarized as follows:

(In thousands)	March 31, 2010
Allowance for credit losses:	
Beginning balance:	$ 116,717
Charge-offs	15,578
Recoveries	1,985
Net Charge-offs	13,593
Provision	16,550
Ending balance:	$ 119,674

The composition of the allowance for loan losses at March 31, 2011 and December 31, 2010 was as follows:

	March 31, 2011						
(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	$ 2,980	$ 9,760	$ 28,385	$ 6,162	$ -	$ -	$ 47,287
Collectively evaluated for impairment	8,811	12,814	25,287	25,391	7,265	4	79,572
Total ending allowance balance	$ 11,791	$ 22,574	$ 53,672	$ 31,553	$ 7,265	$ 4	$ 126,859
Loan Balance:							
Loans individually evaluated for impairment	$ 19,391	$ 53,259	$ 108,186	$ 58,123	$ -	$ -	$ 238,959
Loans collectively evaluated for impairment	708,602	1,201,377	281,147	1,661,931	656,618	2,341	4,512,016
Total ending loan balance	$ 727,993	$ 1,254,636	$ 389,333	$ 1,720,054	$ 656,618	$ 2,341	$ 4,750,975
Allowance for loan losses as a percentage of loan balance:							
Loans individually evaluated for impairment	15.37 %	18.33 %	26.24 %	10.60 %	-	-	19.79 %
Loans collectively evaluated for impairment	1.24 %	1.07 %	8.99 %	1.53 %	1.11 %	0.17 %	1.76 %
	1.62 %	1.80 %	13.79 %	1.83 %	1.11 %	0.17 %	2.67 %

Total ending loan balance							
Recorded Investment:							
Loans individually evaluated for impairment	$ 19,391	$ 53,259	$ 108,186	$ 58,123	$ -	$ -	$ 238,959
Loans collectively evaluated for impairment	711,569	1,206,333	282,211	1,667,513	659,505	2,385	4,529,516
Total ending loan balance	$ 730,960	$ 1,259,592	$ 390,397	$ 1,725,636	$ 659,505	$ 2,385	$ 4,768,475

	December 31, 2010						
(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	$ 3,028	$ 10,001	$ 26,387	$ 4,043	$ -	$ -	$ 43,459
Collectively evaluated for impairment	10,556	18,514	19,807	21,802	7,228	31	77,938
Total ending allowance balance	$ 13,584	$ 28,515	$ 46,194	$ 25,845	$ 7,228	$ 31	$ 121,397
Reallocated allowance for loan losses:							
Ending allowance balance attributed to loans							
Individually evaluated for impairment	$ 3,028	$ 10,001	$ 26,387	$ 4,043	$ -	$ -	$ 43,459
Collectively evaluated for impairment	8,668	11,910	25,566	24,750	7,039	5	77,938
Total ending allowance balance	$ 11,696	$ 21,911	$ 51,953	$ 28,793	$ 7,039	$ 5	$ 121,397
Loan Balance:							
Loans individually evaluated for impairment	$ 19,205	$ 57,930	$ 113,571	$ 60,227	$ -	$ -	$ 250,933
Loans collectively evaluated for impairment	718,697	1,168,686	292,909	1,631,982	666,871	2,607	4,481,752

Total ending loan balance	$ 737,902	$ 1,226,616	$ 406,480	$ 1,692,209	$ 666,871	$ 2,607	$ 4,732,685
Reallocated allowance for loan losses as a percentage of loan balance:							
Loans individually evaluated for impairment	15.77 %	17.26 %	23.23 %	6.71 %	-	-	17.32 %
Loans collectively evaluated for impairment	1.21 %	1.02 %	8.73 %	1.52 %	1.06 %	0.19 %	1.74 %
Total ending loan balance	1.59 %	1.79 %	12.78 %	1.70 %	1.06 %	0.19 %	2.57 %
Recorded Investment:							
Loans individually evaluated for impairment	$ 19,205	$ 57,930	$ 113,571	$ 60,227	$ -	$ -	$ 250,933
Loans collectively evaluated for impairment	721,583	1,173,490	293,962	1,637,443	670,116	2,663	4,499,257
Total ending loan balance	$ 740,788	$ 1,231,420	$ 407,533	$ 1,697,670	$ 670,116	$ 2,663	$ 4,750,190

Loans collectively evaluated for impairment above include all performing loans at March 31, 2011 and December 31, 2010, 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, 2011 and December 31, 2010, which are evaluated for impairment in accordance with GAAP (see Note 1 of Park's 2010 Annual Report).

Note 6 – Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings per common share for the three months ended March 31, 2011 and 2010.

(in thousands, except share and per share data)	Three months ended March 31, 2011	Three months ended March 31, 2010
Numerator:		
Income available to common shareholders	$ 19,914	$ 19,327
Denominator:		
Denominator for basic earnings per share (weighted average common shares outstanding)	15,398,930	14,882,774
Effect of dilutive options and warrants	4,490	-
Denominator for diluted earnings per share (weighted average common shares outstanding adjusted for the effect of dilutive options and warrants)	15,403,420	14,882,774
Earnings per common share:		
Basic earnings per common share	$ 1.29	$ 1.30
Diluted earnings per common share	$ 1.29	$ 1.30

As of March 31, 2011 and 2010, options to purchase 75,895 and 254,120 common shares, respectively, were outstanding under the Park National Corporation 2005 Incentive Stock Option Plan (the "2005 Plan"). A warrant to purchase 227,376 common shares was outstanding at both March 31, 2011 and 2010 as a result of Park's participation in the U.S. Treasury's Capital Purchase Program (the "CPP"). Warrants to purchase an aggregate of 71,984 common shares were outstanding at March 31, 2011 as a result of the issuance of common stock and warrants on December 10, 2010. In addition, warrants to purchase an aggregate of 500,000 common shares were outstanding at March 31, 2010 as a result of the issuance of common stock and warrants on October 30, 2009. All warrants issued on October 30, 2009 were exercised or expired as of October 30, 2010 and thus had no impact on the period ended March 31, 2011.

The common shares represented by the options and the warrants at March 31, 2011 and 2010, totaling a weighted average of 149,591 and 981,852, respectively, were not included in the computation of diluted earnings per common share because the respective exercise prices exceeded the market value of the underlying common shares such that their inclusion would have had an anti-dilutive effect. The warrant to purchase 227,376 common shares pertaining to the CPP was not included in the 149,591 at March 31, 2011, as the dilutive effect of this warrant was 4,490 shares of common stock at March 31, 2011. The exercise price of the CPP warrant to purchase 227,376 common shares is $65.97.

Note 7 – Segment Information

The Corporation is a multi-bank holding company headquartered in Newark, Ohio. The operating segments for the Corporation are its two chartered bank subsidiaries, The Park National Bank (headquartered in Newark, Ohio) (“PNB”) and Vision Bank (headquartered in Panama City, Florida) (“VB”). Management is required to disclose information about the different types of business activities in which a company engages and also information on the different economic environments in which a company operates, so that the users of the financial statements can better understand a company’s performance, better understand the potential for future cash flows, and make more informed judgments about the company as a whole. Park has two operating segments, as: (i) there are two separate and distinct geographic markets in which Park operates, (ii) discrete financial information is available for each operating segment and (iii) the segments are aligned with internal reporting to Park’s Chief Executive Officer, who is the chief operating decision maker.

Operating Results for the three months ended March 31, 2011

(in thousands)	PNB	VB	All Other	Total
Net interest income	$ 60,236	$ 6,755	$ 2,322	$ 69,313
Provision for loan losses	4,975	8,000	525	13,500
Other income (loss) and security gains	22,897	(3,177)	86	19,806
Other expense	36,321	7,425	2,600	46,346
Net income (loss)	29,030	(7,664)	12	21,378
Balance at March 31, 2011				
Assets	$ 6,573,541	$ 802,154	$ (37,292)	$ 7,338,403

Operating Results for the three months ended March 31, 2010

(in thousands)	PNB	VB	All Other	Total
Net interest income	$ 58,399	$ 6,891	$ 2,090	$ 67,380
Provision for loan losses	4,750	11,300	500	16,550
Other income and security gains	24,778	151	85	25,014
Other expense	36,802	7,854	3,234	47,890
Net income (loss)	28,335	(7,456)	(100)	20,779
Balance at March 31, 2010				
Assets	$ 6,310,720	$ 881,705	$ (16,338)	$ 7,176,087

The operating results of the Parent Company and Guardian Financial Services Company (GFC) in the “All Other” column are used to reconcile the segment totals to the consolidated condensed statements of income for the three month periods ended March 31, 2011 and 2010. The reconciling amounts for consolidated total assets for the three month periods ended March 31, 2011 and 2010, consist of the elimination of intersegment borrowings and the assets of the Parent Company and GFC which are not eliminated.

Note 8 – Stock Option Plan

Park did not grant any stock options during the three month periods ended March 31, 2011 and 2010. Additionally, no stock options vested during the first three months of 2011 or 2010.

The following table summarizes stock option activity during the first three months of 2011.

	Stock Options	Weighted Average Exercise Price Per Share
Outstanding at December 31, 2010	78,075	$ 74.96
Granted	-	-
Exercised	-	-
Forfeited/Expired	2,180	$ 74.96
Outstanding at March 31, 2011	75,895	$ 74.96

All of the stock options outstanding at March 31, 2011 were exercisable. The aggregate intrinsic value of the outstanding stock options at March 31, 2011 was $0. No stock options were exercised during the first three months of 2011 or 2010. The weighted average contractual remaining term was 1.7 years for the stock options outstanding at March 31, 2011.

All of the common shares delivered upon exercise of incentive stock options granted under the 2005 Plan are to be treasury shares. At March 31, 2011, incentive stock options granted under the 2005 Plan covering 75,895 common shares were outstanding. At March 31, 2011, Park held 452,769 treasury shares that are available for the 2005 Plan.

Note 9 – Mortgage Loans Held For Sale

Mortgage loans held for sale are carried at their fair value. At March 31, 2011 and December 31, 2010 respectively, Park had approximately $4.7 million and $8.3 million in mortgage loans held for sale. These amounts are included in loans on the consolidated condensed balance sheets and in the residential real estate segments in Notes 4 and 5.

Note 10 – Investment Securities

The amortized cost and fair values of investment securities are shown in the following table. Management performs a quarterly evaluation of investment securities for any other-than-temporary impairment. For the three months ended March 31, 2011 and 2010, there were no investment securities deemed to be other-than-temporarily impaired.

Investment securities at March 31, 2011, were as follows:

(in thousands)

March 31, 2011 Securities Available-for-Sale	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$317,301	$ 1,870	$ 2,688	$ 316,483
Obligations of states and political subdivisions	8,977	111	-	9,088
U.S. Government sponsored entities asset-backed securities	1,022,215	23,550	10,160	1,035,605
Other equity securities	938	826	47	1,717
Total	$1,349,431	$ 26,357	$ 12,895	$ 1,362,893

March 31, 2011 Securities Held-to-Maturity	Amortized Cost	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Estimated Fair Value
Obligations of states and political subdivisions	$2,867	$ 9	$ -	$ 2,876
U.S. Government sponsored entities asset-backed securities	611,197	15,452	4,191	622,458
Total	$614,064	$ 15,461	$ 4,191	$ 625,334

Management does not believe any individual unrealized loss as of March 31, 2011 or December 31, 2010, represents an other-than-temporary impairment. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized within net income in the period the other-than-temporary impairment is identified.

Securities with unrealized losses at March 31, 2011, were as follows:

(in thousands)	Less than 12 months		12 months or longer		Total	
March 31, 2011 Securities Available-for-Sale	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$144,627	$2,688	$-	$-	$144,627	$2,688
U.S. Government sponsored entities asset-backed securities	409,981	10,160	-	-	409,981	10,160
Other equity securities	80	30	211	17	291	47
Total	$554,688	$12,878	$211	$17	$554,899	$12,895
March 31, 2011 Securities Held-to-Maturity						
U.S. Government sponsored entities asset-backed securities	$285,106	$4,191	$-	$-	$285,106	$4,191

Investment securities at December 31, 2010, were as follows:

(in thousands)

December 31, 2010 Securities Available-for-Sale	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$ 272,301	$ 2,968	$ 1,956	$273,313
Obligations of states and political subdivisions	10,815	281	52	11,044
U.S. Government sponsored entities asset-backed securities	990,204	30,633	9,425	1,011,412
Other equity securities	938	858	43	1,753
Total	$ 1,274,258	$ 34,740	$ 11,476	$1,297,522

December 31, 2010 Securities Held-to-Maturity	Amortized cost	Gross unrealized holding gains	Gross unrealized holding losses	Estimated fair value
Obligations of states and political subdivisions	$ 3,167	$ 7	$ -	$3,174
U.S. Government sponsored entities asset-backed securities	670,403	17,157	4,620	682,940
Total	$ 673,570	$ 17,164	$ 4,620	$686,114

Securities with unrealized losses at December 31, 2010, were as follows:

(in thousands)	Less than 12 months		12 months or longer		Total	
December 31, 2010 Securities Available-for-Sale	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$74,379	$1,956	$-	$-	$74,379	$1,956
Obligations of states and political subdivisions	1,459	52			1,459	52
U.S. Government sponsored entities asset-backed securities	418,156	9,425	-	-	418,156	9,425
Other equity securities	74	29	221	14	295	43
Total	$494,068	$11,462	$221	$14	$494,289	$11,476
December 31, 2010 Securities Held-to-Maturity						
U.S. Government sponsored entities asset-backed securities	$297,584	$4,620	$-	$-	$297,584	$4,620

Park’s U.S. Government sponsored entities asset-backed securities consist primarily of 15-year residential mortgage-backed securities and collateralized mortgage obligations.

The amortized cost and estimated fair value of investments in debt securities at March 31, 2011, are shown in the following table by contractual maturity or the expected call date, except for asset-backed securities, which are shown as a single total, due to the unpredictability of the timing in principal repayments.

(in thousands)	Amortized cost	Fair value
Securities Available-for-Sale		
U.S. Treasury and sponsored entities notes:		
Due within one year	$ 124,986	$ 126,762
Due one through five years	25,000	25,000
Due five through ten years	142,980	141,326
Due over ten years	24,335	23,395
Total	$ 317,301	$ 316,483
Obligations of states and political subdivisions:		
Due within one year	$ 7,674	$ 7,699
Due one through five years	1,303	1,389
Total	$ 8,977	$ 9,088
U.S. Government sponsored entities asset-backed securities:		
Total	$ 1,022,215	$ 1,035,605

(in thousands)	Amortized cost	Fair value
Securities Held-to-Maturity		
Obligations of state and political subdivisions:		
Due within one year	$ 2,867	$ 2,876
Total	$ 2,867	$ 2,876
U.S. Government sponsored entities asset-backed securities:		
Total	$ 611,197	$ 622,458

All of Park's securities shown in the above table as U.S. Treasury and sponsored entities notes are callable notes. These callable securities have a final maturity in 8 to 12 years, but are shown in the table at their expected call date.

Note 11 – Other Investment Securities

Other investment securities consist of stock investments in the Federal Home Loan Bank and the Federal Reserve Bank. These restricted stock investments are carried at their redemption value.

(in thousands)	March 31, 2011	December 31, 2010
Federal Home Loan Bank stock	$ 61,823	$ 61,823
Federal Reserve Bank stock	6,876	6,876
Total	$ 68,699	$ 68,699

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Note 12 – Pension Plan

Park has a noncontributory defined benefit pension plan covering substantially all of its employees. The plan provides benefits based on an employee's years of service and compensation.

Park's funding policy is to contribute annually an amount that can be deducted for federal income tax purposes using a different actuarial cost method and different assumptions from those used for financial reporting purposes. Pension plan contributions were $14 million and zero for the three month periods ended March 31, 2011 and 2010, respectively.

The following table shows the components of net periodic benefit expense:

(in thousands)	Three months ended March 31, 2011	2010
Service cost	$ 1,139	$ 918
Interest cost	992	896
Expected return on plan assets	(1,886)	(1,457)
Amortization of prior service cost	5	5
Recognized net actuarial loss	353	270
Benefit expense	$ 603	$ 632

Note 13 – Derivative Instruments

FASB ASC 815, Derivatives and Hedging, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by GAAP, the Company records all derivatives on the consolidated condensed balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified into earnings when the hedged transaction affects earnings, with any ineffective portion of changes in the fair value of the derivative recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged item or transaction.

During the first quarter of 2008, the Company executed an interest rate swap to hedge a $25 million floating-rate subordinated note that was entered into by Park during the fourth quarter of 2007. The Company's objective in using this derivative is to add stability to interest expense and to manage its exposure to interest rate risk. Our interest rate swap involves the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreement without exchange of the underlying principal amount, and has been designated as a cash flow hedge.

At March 31, 2011, the interest rate swap's fair value of $(1.4) million was included in other liabilities. No hedge ineffectiveness on the cash flow hedge was recognized during the three months ended March 31, 2011. At March 31, 2011, the variable rate on the $25 million subordinated note was 2.30% (3-month LIBOR plus 200 basis points) and

Park was paying 6.01% (4.01% fixed rate on the interest rate swap plus 200 basis points).

For the three months ended March 31, 2011, the change in the fair value of the interest rate swap reported in other comprehensive income was a gain of $133,000 (net of taxes of $71,000). Amounts reported in accumulated other comprehensive income related to the interest rate swap will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt.

As of March 31, 2011, no derivatives were designated as fair value hedges or hedges of net investments in foreign operations. Additionally, the Company does not use derivatives for trading or speculative purposes.

As of March 31, 2011, Park had mortgage loan interest rate lock commitments outstanding of approximately $6.0 million. Park has specific forward contracts to sell each of these loans to a third party investor. These loan commitments represent derivative instruments, which are required to be carried at fair value. The derivative instruments used are not designated as hedges under GAAP. At March 31, 2011, the fair value of the derivative instruments was approximately $85,000. The fair value of the derivative instruments is included within loans held for sale and the corresponding income is included within non-yield loan fee income. Gains and losses resulting from expected sales of mortgage loans are recognized when the respective loan contract is entered into between the borrower, Park, and the third party investor. The fair value of Park's mortgage interest rate lock commitments (IRLCs) is based on current secondary market pricing.

In connection with the sale of Park's Class B Visa shares during the 2009 year, Park entered into a swap agreement with the purchaser of the shares. The swap agreement adjusts for dilution in the conversion ratio of Class B Visa shares resulting from certain Visa litigation. At March 31, 2011, the fair value of the swap liability of $60,000 is an estimate of the exposure based upon probability-weighted potential Visa litigation losses.

Note 14 – Loan Servicing

Park serviced sold mortgage loans of $1.44 billion at March 31, 2011, compared to $1.47 billion at December 31, 2010 and $1.53 billion at March 31, 2010. At March 31, 2011, $34.1 million of the sold mortgage loans were sold with recourse compared to $50.5 million at March 31, 2010. Management closely monitors the delinquency rates on the mortgage loans sold with recourse. At March 31, 2011, management determined that no liability was deemed necessary for these loans.

When Park sells mortgage loans with servicing rights retained, servicing rights are initially recorded at fair value. Park selected the "amortization method" as permissible within GAAP, whereby the servicing rights capitalized are amortized in proportion to and over the period of estimated future servicing income of the underlying loan. At the end of each reporting period, the carrying value of mortgage servicing rights ("MSRs") is assessed for impairment with a comparison to fair value. MSRs are carried at the lower of their amortized cost or fair value.

Activity for MSRs and the related valuation allowance follows:

(in thousands)	Three Months Ended March 31, 2011	2010
Mortgage servicing rights:		
Carrying amount, net, beginning of period	$ 10,488	10,780
Additions	330	575
Amortization	(521)	(496)
Change in valuation allowance	68	-
Carrying amount, net, end of period	$ 10,365	$ 10,859
Valuation allowance:		
Beginning of period	$ 748	$ 574
Change in valuation allowance	(68)	-
End of period	$ 680	$ 574

Servicing fees included in other service income were $1.4 million for the three months ended March 31, 2011. For the three months ended March 31, 2010, servicing fees included in other service income were $1.3 million.

Note 15 – Fair Value

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that Park uses to measure fair value are as follows:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that Park has the ability to access as of the measurement date.
- Level 2: Level 1 inputs for assets or liabilities that are not actively traded. Also consists of an observable market price for a similar asset or liability. This includes the use of “matrix pricing” to value debt securities absent the exclusive use of quoted prices.
- Level 3: Consists of unobservable inputs that are used to measure fair value when observable market inputs are not available. This could include the use of internally developed models, financial forecasting and similar inputs.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability between market participants at the balance sheet date. When possible, the Company looks to active and observable markets to price identical assets or liabilities. When identical assets and liabilities are not traded in active markets, the Company looks to observable market data for similar assets and liabilities. However, certain assets and liabilities are not traded in observable markets and Park must use other valuation methods to develop a fair value. The fair value of impaired loans is based on the fair value of the underlying collateral, which is estimated through third party appraisals or internal estimates of collateral values.

Assets and Liabilities Measured at Fair Value on a Recurring Basis:

The following table presents assets and liabilities measured at fair value on a recurring basis:

Fair Value Measurements at March 31, 2011 using:

(in thousands)	Level 1	Level 2	Level 3	Balance at March 31, 2011
Assets				
Investment securities				
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$ -	$ 316,483	$ -	$ 316,483
Obligations of states and political subdivisions	-	6,618	2,470	9,088
U.S. Government sponsored entities' asset-backed securities	-	1,035,605	-	1,035,605
Equity securities	977	-	740	1,717
Mortgage loans held for sale	-	4,656	-	4,656
Mortgage IRLCs	-	85	-	85
Liabilities				
Interest rate swap	$ -	$ 1,430	$ -	$ 1,430
Fair value swap	-	-	60	60

Fair Value Measurements at December 31, 2010 using:

(in thousands)	Level 1	Level 2	Level 3	Balance at December 31, 2010
Assets				
Investment securities				
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$ -	$ 273,313	$ -	$ 273,313
Obligations of states and political subdivisions	-	8,446	2,598	11,044
U.S. Government sponsored entities' asset-backed securities	-	1,011,412	-	1,011,412
Equity securities	1,008	-	745	1,753
Mortgage loans held for sale	-	8,340	-	8,340
Mortgage IRLCs	-	166	-	166
Liabilities				
Interest rate swap	$ -	$ 1,634	$ -	$ 1,634
Fair value swap	-	-	60	60

The following methods and assumptions were used by the Corporation in determining fair value of the financial assets and liabilities discussed above:

Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The Fair Value Measurements tables exclude Park's Federal Home Loan Bank stock and Federal Reserve Bank stock. These assets are carried at their respective redemption values, as it is not practicable to calculate their fair values. For securities where quoted prices or market prices of similar securities are not available, which include municipal securities, fair values are calculated using discounted cash flows.

Interest rate swap: The fair value of the interest rate swap represents the estimated amount Park would pay or receive to terminate the agreement, considering current interest rates and the current creditworthiness of the counterparty.

Fair value swap: The fair value of the swap agreement entered into with the purchaser of the Visa Class B shares represents an internally developed estimate of the exposure based upon probability-weighted potential Visa litigation losses.

Mortgage Interest Rate Lock Commitments (IRLCs): IRLCs are based on current secondary market pricing and are classified as Level 2.

Mortgage loans held for sale: Mortgage loans held for sale are carried at their fair value. Mortgage loans held for sale are estimated using security prices for similar product types and, therefore, are classified in Level 2.

The table below is a reconciliation of the beginning and ending balances of the Level 3 inputs for the three months ended March 31, 2011 and 2010, for financial instruments measured on a recurring basis and classified as Level 3:

Level 3 Fair Value Measurements
Three months ended March 31, 2011 and 2010

(in thousands)	Obligations of states and political subdivisions	Equity Securities	Fair value swap