

PARK NATIONAL CORP /OH/  
Form 10-Q  
July 28, 2016

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 June 30, 2016

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  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  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  Accelerated filer

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

15,330,796 Common shares, no par value per share, outstanding at July 27, 2016.

---

PARK NATIONAL CORPORATION

CONTENTS

|   | Page      |
|---|-----------|
| PART I. FINANCIAL INFORMATION   |           |
| Item 1. Financial Statements  |           |
| <u>Consolidated Condensed Balance Sheets as of June 30, 2016 and December 31, 2015 (unaudited)</u>                                      | <u>3</u>  |
| <u>Consolidated Condensed Statements of Income for the three and six months ended June 30, 2016 and 2015 (unaudited)</u>                | <u>4</u>  |
| <u>Consolidated Condensed Statements of Comprehensive Income for the three and six months ended June 30, 2016 and 2015 (unaudited)</u>  | <u>6</u>  |
| <u>Consolidated Condensed Statements of Changes in Shareholders' Equity for the six months ended June 30, 2016 and 2015 (unaudited)</u> | <u>7</u>  |
| Consolidated Condensed Statements of Cash Flows for the six months ended June 30, 2016 and 2015 (unaudited)                             | <u>8</u>  |
| <u>Notes to Unaudited Consolidated Condensed Financial Statements</u>   | <u>10</u> |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                    | <u>45</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>   | <u>67</u> |
| <u>Item 4. Controls and Procedures</u>  | <u>67</u> |
| <u>PART II. OTHER INFORMATION</u>   | <u>68</u> |
| <u>Item 1. Legal Proceedings</u>  | <u>68</u> |
| <u>Item 1A. Risk Factors</u>  | <u>68</u> |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>  | <u>68</u> |
| <u>Item 3. Defaults Upon Senior Securities</u>  | <u>69</u> |
| <u>Item 4. Mine Safety Disclosures</u>  | <u>69</u> |
| <u>Item 5. Other Information</u>  | <u>69</u> |
| <u>Item 6. Exhibits</u>   | <u>69</u> |
| <u>SIGNATURES</u>   | <u>72</u> |

Table of Contents

## PARK NATIONAL CORPORATION AND SUBSIDIARIES

## Consolidated Condensed Balance Sheets (Unaudited)

(in thousands, except share and per share data)

|   | June 30,<br>2016 | December 31,<br>2015 |
|---|------------------|----------------------|
| Assets:   |                  |                      |
| Cash and due from banks   | \$ 119,873       | \$ 119,412           |
| Money market instruments  | 196,016          | 30,047               |
| Cash and cash equivalents   | 315,889          | 149,459              |
| Investment securities:  |                  |                      |
| Securities available-for-sale, at fair value (amortized cost of \$1,281,357 and \$1,436,714 at June 30, 2016 and December 31, 2015, respectively)       | 1,305,574        | 1,436,266            |
| Securities held-to-maturity, at amortized cost (fair value of \$191,557 and \$151,428 at June 30, 2016 and December 31, 2015, respectively)             | 184,121          | 149,302              |
| Other investment securities   | 58,311           | 58,311               |
| Total investment securities   | 1,548,006        | 1,643,879            |
| Loans   |                  |                      |
| Allowance for loan losses   | (58,699 )        | (56,494 )            |
| Net loans   | 5,068,945        | 5,011,591            |
| Bank owned life insurance   | 183,143          | 181,684              |
| Prepaid assets  | 85,962           | 80,635               |
| Goodwill  | 72,334           | 72,334               |
| Premises and equipment, net   | 58,962           | 59,493               |
| Affordable housing tax credit investments   | 47,576           | 51,247               |
| Other real estate owned   | 17,566           | 18,651               |
| Accrued interest receivable   | 17,497           | 18,675               |
| Mortgage loan servicing rights  | 8,880            | 9,008                |
| Other   | 6,850            | 14,698               |
| Total assets  | \$7,431,610      | \$7,311,354          |
| Liabilities and Shareholders' Equity:   |                  |                      |
| Deposits:   |                  |                      |
| Noninterest bearing   | \$ 1,378,053     | \$ 1,404,032         |
| Interest bearing  | 4,245,826        | 3,943,610            |
| Total deposits  | 5,623,879        | 5,347,642            |
| Short-term borrowings   | 210,731          | 394,242              |
| Long-term debt  | 741,174          | 738,105              |
| Subordinated notes  | 45,000           | 45,000               |
| Unfunded commitments in affordable housing tax credit investments   | 15,995           | 20,311               |
| Accrued interest payable  | 2,336            | 2,338                |
| Other   | 52,608           | 50,361               |
| Total liabilities   | \$6,691,723      | \$6,597,999          |
| Shareholders' equity:   |                  |                      |
| Preferred shares (200,000 shares authorized; 0 shares issued)   | \$—              | \$—                  |
| Common shares (No par value; 20,000,000 shares authorized; 16,150,835 shares issued at June 30, 2016 and 16,150,854 shares issued at December 31, 2015) | 304,756          | 303,966              |

Edgar Filing: PARK NATIONAL CORP /OH/ - Form 10-Q

|   |             |             |
|---|-------------|-------------|
| Retained earnings   | 517,215     | 507,505     |
| Treasury shares (820,039 shares at June 30, 2016 and December 31, 2015) | (82,473 )   | (82,473 )   |
| Accumulated other comprehensive income (loss), net of taxes             | 389         | (15,643 )   |
| Total shareholders' equity  | 739,887     | 713,355     |
| Total liabilities and shareholders' equity                              | \$7,431,610 | \$7,311,354 |

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

3

---

Table of Contents

## PARK NATIONAL CORPORATION AND SUBSIDIARIES

## Consolidated Condensed Statements of Income (Unaudited)

(in thousands, except share and per share data)

|   | Three Months<br>Ended<br>June 30, |          | Six Months Ended<br>June 30, |           |
|---|-----------------------------------|----------|------------------------------|-----------|
|   | 2016                              | 2015     | 2016                         | 2015      |
| Interest and dividend income:                                     |                                   |          |                              |           |
| Interest and fees on loans  | \$58,401                          | \$56,463 | \$118,453                    | \$111,875 |
| Interest and dividends on:  |                                   |          |                              |           |
| Obligations of U.S. Government, its agencies and other securities | 7,770                             | 9,113    | 16,379                       | 18,502    |
| Obligations of states and political subdivisions                  | 591                               | —        | 964                          | —         |
| Other interest income   | 249                               | 228      | 523                          | 445       |
| Total interest and dividend income                                | 67,011                            | 65,804   | 136,319                      | 130,822   |
| Interest expense:   |                                   |          |                              |           |
| Interest on deposits:   |                                   |          |                              |           |
| Demand and savings deposits                                       | 933                               | 556      | 1,757                        | 1,042     |
| Time deposits   | 2,389                             | 2,542    | 4,776                        | 5,164     |
| Interest on borrowings:   |                                   |          |                              |           |
| Short-term borrowings   | 82                                | 106      | 246                          | 239       |
| Long-term debt  | 6,122                             | 6,085    | 12,236                       | 12,327    |
| Total interest expense  | 9,526                             | 9,289    | 19,015                       | 18,772    |
| Net interest income   | 57,485                            | 56,515   | 117,304                      | 112,050   |
| Provision for loan losses   | 2,637                             | 1,612    | 3,547                        | 3,244     |
| Net interest income after provision for loan losses               | 54,848                            | 54,903   | 113,757                      | 108,806   |
| Other income:   |                                   |          |                              |           |
| Income from fiduciary activities                                  | 5,438                             | 5,210    | 10,551                       | 10,122    |
| Service charges on deposit accounts                               | 3,575                             | 3,684    | 6,998                        | 7,065     |
| Other service income  | 3,351                             | 3,025    | 5,925                        | 5,326     |
| Checkcard fee income  | 3,868                             | 3,665    | 7,400                        | 7,016     |
| Bank owned life insurance income                                  | 1,049                             | 1,086    | 2,246                        | 2,964     |
| ATM fees  | 570                               | 614      | 1,153                        | 1,192     |
| OREO valuation adjustments  | (221)                             | (251)    | (339)                        | (555)     |
| Gain on sale of OREO, net   | 162                               | 513      | 296                          | 1,186     |
| Gain on commercial loans held for sale                            | —                                 | —        | —                            | 756       |
| Miscellaneous   | 944                               | 1,645    | 1,895                        | 2,992     |
| Total other income  | 18,736                            | 19,191   | 36,125                       | 38,064    |



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<br>Ended<br>June 30, |            | Six Months Ended<br>June 30, |            |
|--|-----------------------------------|------------|------------------------------|------------|
|  | 2016                              | 2015       | 2016                         | 2015       |
| Other expense:                             |                                   |            |                              |            |
| Salaries                                   | \$21,256                          | \$ 20,995  | \$42,810                     | \$ 41,977  |
| Employee benefits                          | 4,894                             | 4,729      | 9,667                        | 10,414     |
| Occupancy expense                          | 2,639                             | 2,381      | 5,187                        | 4,960      |
| Furniture and equipment expense            | 3,416                             | 2,831      | 6,859                        | 5,693      |
| Data processing fees                       | 1,373                             | 1,197      | 2,590                        | 2,464      |
| Professional fees and services             | 5,401                             | 5,583      | 12,068                       | 10,277     |
| Marketing                                  | 1,073                             | 937        | 2,184                        | 1,950      |
| Insurance                                  | 1,438                             | 1,362      | 2,849                        | 2,823      |
| Communication                              | 1,353                             | 1,233      | 2,574                        | 2,564      |
| State tax expense                          | 798                               | 883        | 1,724                        | 1,930      |
| Miscellaneous                              | 1,665                             | 2,536      | 6,693                        | 5,335      |
| Total other expense                        | 45,306                            | 44,667     | 95,205                       | 90,387     |
| Income before income taxes                 | 28,278                            | 29,427     | 54,677                       | 56,483     |
| Federal income taxes                       | 8,280                             | 8,388      | 15,993                       | 16,400     |
| Net income                                 | \$19,998                          | \$ 21,039  | \$38,684                     | \$ 40,083  |
| Earnings per Common Share:                 |                                   |            |                              |            |
| Basic                                      | \$1.30                            | \$ 1.37    | \$2.52                       | \$ 2.61    |
| Diluted                                    | \$1.30                            | \$ 1.37    | \$2.51                       | \$ 2.60    |
| Weighted average common shares outstanding |                                   |            |                              |            |
| Basic                                      | 15,330,802                        | 15,370,882 | 15,330,802                   | 15,375,026 |
| Diluted                                    | 15,399,283                        | 15,407,881 | 15,402,896                   | 15,411,920 |
| Cash dividends declared                    | \$0.94                            | \$ 0.94    | \$1.88                       | \$ 1.88    |

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<br>Ended<br>June 30, |            | Six Months Ended<br>June 30, |          |
|--|-----------------------------------|------------|------------------------------|----------|
|  | 2016                              | 2015       | 2016                         | 2015     |
| Net income   | \$19,998                          | \$21,039   | \$38,684                     | \$40,083 |
| Other comprehensive income (loss), net of tax:   |                                   |            |                              |          |
| Unrealized net holding gain (loss) on securities available-for-sale, net of income tax of \$2,343 and \$(4,432) for the three months ended June 30, 2016 and 2015, and \$8,633 and \$(200) for the six months ended June 30, 2016 and 2015, respectively | 4,352                             | (8,231 )   | 16,032                       | (372 )   |
| Other comprehensive income (loss)  | \$4,352                           | \$(8,231 ) | \$16,032                     | \$(372 ) |
| Comprehensive income   | \$24,350                          | \$12,808   | \$54,716                     | \$39,711 |

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<br>Shares | Common<br>Shares | Retained<br>Earnings | Treasury<br>Shares | Accumulated<br>Other<br>Comprehensive<br>(Loss) Income |
|---|---------------------|------------------|----------------------|--------------------|--|
| Balance at January 1, 2015, as previously presented   | \$ -305,499         | \$303,104        | \$486,541            | \$(77,439)         | \$ (13,608 )   |
| Cumulative effect of change in accounting principle<br>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  |                     |                  | 40,083               |                    |  |
| Other comprehensive loss, net of tax  |                     |                  |                      |                    | (372 )   |
| Dividends on common shares at \$1.88 per share  |                     |                  | (28,975 )            |                    |  |
| Cash payment for fractional shares in dividend<br>reinvestment plan                                   |                     | (1 )             |                      |                    |  |
| Share-based compensation expense  |                     | 470              |                      |                    |  |
| Repurchase of treasury shares   |                     |                  |                      | (1,783 )           |  |
| Balance at June 30, 2015  | \$ —                | \$303,573        | \$495,592            | \$(79,222)         | \$ (13,980 )   |
| Balance at January 1, 2016  | \$ —                | \$303,966        | \$507,505            | \$(82,473)         | \$ (15,643 )   |
| Net income  |                     |                  | 38,684               |                    |  |
| Other comprehensive income, net of tax  |                     |                  |                      |                    | 16,032   |
| Dividends on common shares at \$1.88 per share  |                     |                  | (28,974 )            |                    |  |
| Cash payment for fractional shares in dividend<br>reinvestment plan                                   |                     | (2 )             |                      |                    |  |
| Share-based compensation expense  |                     | 792              |                      |                    |  |
| Balance at June 30, 2016  | \$ —                | \$304,756        | \$517,215            | \$(82,473)         | \$ 389   |

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Table of Contents

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

|   | Six Months Ended<br>June 30, |             |
|---|------------------------------|-------------|
|   | 2016                         | 2015        |
| Operating activities:   |                              |             |
| Net income  | \$38,684                     | \$40,083    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |             |
| Provision for loan losses   | 3,547                        | 3,244       |
| Amortization of loan fees and costs, net  | 3,504                        | 3,243       |
| Provision for depreciation  | 4,178                        | 3,457       |
| Amortization (accretion) of investment securities, net                            | 38                           | (130 )      |
| Amortization of prepayment penalty of long-term debt                              | 3,069                        | 3,004       |
| Loan originations to be sold in secondary market                                  | (110,666)                    | (102,628 )  |
| Proceeds from sale of loans in secondary market                                   | 108,009                      | 100,465     |
| Gain on sale of loans in secondary market   | (2,162 )                     | (1,791 )    |
| Share-based compensation expense  | 792                          | 470         |
| OREO valuation adjustments  | 339                          | 555         |
| Gain on sale of OREO, net   | (296 )                       | (1,186 )    |
| Gain on sale of commercial loans held for sale                                    | —                            | (756 )      |
| Bank owned life insurance income  | (2,246 )                     | (2,964 )    |
| Changes in assets and liabilities:  |                              |             |
| Increase in other assets  | (7,074 )                     | (19,117 )   |
| (Increase) decrease in other liabilities  | (2,543 )                     | 8,725       |
| Net cash provided by operating activities   | \$37,173                     | \$34,674    |
| Investing activities:   |                              |             |
| Proceeds from calls and maturities of:  |                              |             |
| Available-for-sale securities   | 570,242                      | 111,481     |
| Held-to-maturity securities   | 11,155                       | 19,035      |
| Purchases of:   |                              |             |
| Available-for-sale securities   | (414,700)                    | (180,273 )  |
| Held-to-maturity securities   | (41,566 )                    | —           |
| Net loan originations, portfolio loans  | (55,675 )                    | (76,362 )   |
| Proceeds from the sale of commercial loans held for sale                          | —                            | 900         |
| Investments in qualified affordable housing projects                              | (4,316 )                     | (4,289 )    |
| Proceeds from the sale of OREO  | 3,092                        | 12,169      |
| Purchases of bank owned life insurance  | —                            | (10,045 )   |
| Life insurance death benefits   | 1,050                        | 5,221       |
| Purchases of premises and equipment, net  | (3,929 )                     | (6,703 )    |
| Net cash provided by (used in) investing activities                               | \$65,353                     | \$(128,866) |

Table of Contents

## PARK NATIONAL CORPORATION AND SUBSIDIARIES

## Consolidated Condensed Statements of Cash Flows (Unaudited) (Continued)

(in thousands)

|  | Six Months Ended<br>June 30, |           |
|--|------------------------------|-----------|
|  | 2016                         | 2015      |
| Financing activities:                                  |                              |           |
| Net increase in deposits                               | \$276,237                    | \$384,366 |
| Net decrease in short-term borrowings                  | (183,511 )                   | (38,362 ) |
| Repayment of long-term debt                            | —                            | (79,544 ) |
| Proceeds from issuance of long-term debt               | —                            | 25,000    |
| Repurchase of treasury shares                          | —                            | (1,783 )  |
| Cash dividends paid                                    | (28,822 )                    | (28,898 ) |
| Net cash provided by financing activities              | \$63,904                     | \$260,779 |
| Increase in cash and cash equivalents                  | 166,430                      | 166,587   |
| Cash and cash equivalents at beginning of year         | 149,459                      | 237,699   |
| Cash and cash equivalents at end of period             | \$315,889                    | \$404,286 |
| Supplemental disclosures of cash flow information:     |                              |           |
| Cash paid for:   |                              |           |
| Interest   | \$19,017                     | \$18,891  |
| Income taxes   | \$8,980                      | \$8,700   |
| Non-cash items:  |                              |           |
| Loans transferred to OREO                              | \$2,147                      | \$11,101  |
| Transfers from loans to commercial loans held for sale | \$—                          | \$144     |
| Securities purchase commitments                        | \$4,631                      | \$—       |

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Table of Contents

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 and six-month period ended June 30, 2016 are not necessarily indicative of the operating results to be anticipated for the fiscal year ending December 31, 2016.

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 United States (“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, 2015 from Park’s 2015 Annual Report to Shareholders (“Park’s 2015 Annual Report”). Certain prior period amounts have been reclassified to conform to the current period presentation.

Park’s significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in Park’s 2015 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 2014-09 - Revenue from Contracts with Customers (Topic 606): In May 2014, the FASB issued ASU 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, 2017. Management is currently evaluating the impact of the adoption of this guidance on Park's consolidated financial statements.

ASU 2015-02 - Consolidation (Topic 810): Amendments to the Consolidation Analysis: In February 2015, the FASB issued ASU 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. The adoption of this guidance on January 1, 2016 did not have an impact on Park’s consolidated financial statements.

ASU 2016-01 - Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. In January 2016, the FASB issued ASU 2016-01 - Financial Instruments - Overall (Subtopic

825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Changes to the current U.S. GAAP model primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the ASU clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale securities. The new guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2017. Management is currently evaluating the impact of the adoption of this guidance on Park's consolidated financial statements.

ASU 2016-02 - Leases (Topic 842): In February 2016, the FASB issued ASU 2016-02 - Leases (Topic 842). The ASU will require all organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Additional qualitative and quantitative disclosures will be required so that users can

Table of Contents

understand more about the nature of an entity's leasing activities. The new guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted. Management is currently evaluating the impact of the adoption of this guidance on Park's consolidated financial statements.

ASU 2016-09 - Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting: In March 2016, FASB issued ASU 2016-09 - Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU provides simplification for several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. 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 permitted. Management is currently evaluating the impact of the adoption of this guidance on Park's consolidated financial statements.

ASU 2016-13 - Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments: In June 2016, FASB issued ASU 2016-13 - Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The new guidance replaces the incurred loss model with an expected loss model, which is referred to as the current expected credit loss (CECL) model. Upon initial recognition of the exposure, the CECL model requires an entity to estimate the credit losses expected over the life of an exposure. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables, held-to-maturity (HTM) debt securities, and reinsurance receivables. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor. The new guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2019. Early adoption is permitted for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2018. Management is currently evaluating the impact of the adoption of this guidance on Park's consolidated financial statements.

## Note 3 – Loans

The composition of the loan portfolio, by class of loan, as of June 30, 2016 and December 31, 2015 was as follows:

| (In thousands)                           | June 30, 2016 |                             |                     | December 31, 2015 |                             |                     |
|--|---------------|-----------------------------|---------------------|-------------------|-----------------------------|---------------------|
|  | Loan Balance  | Accrued Interest Receivable | Recorded Investment | Loan Balance      | Accrued Interest Receivable | Recorded Investment |
| Commercial, financial and agricultural * | \$964,072     | \$ 3,503                    | \$967,575           | \$955,727         | \$ 3,437                    | \$959,164           |
| Commercial real estate *                 | 1,131,067     | 3,622                       | 1,134,689           | 1,113,603         | 4,009                       | 1,117,612           |
| Construction real estate:                |               |                             |                     |                   |                             |                     |
| SEPH commercial land and development     | 1,700         | —                           | 1,700               | 2,044             | —                           | 2,044               |
| Remaining commercial                     | 127,108       | 299                         | 127,407             | 128,046           | 321                         | 128,367             |
| Mortgage                                 | 38,260        | 70                          | 38,330              | 36,722            | 75                          | 36,797              |
| Installment                              | 5,756         | 20                          | 5,776               | 6,533             | 21                          | 6,554               |
| Residential real estate:                 |               |                             |                     |                   |                             |                     |
| Commercial                               | 409,361       | 931                         | 410,292             | 410,571           | 1,014                       | 411,585             |
| Mortgage                                 | 1,197,704     | 1,701                       | 1,199,405           | 1,210,819         | 1,469                       | 1,212,288           |
| HELOC                                    | 213,390       | 791                         | 214,181             | 211,415           | 769                         | 212,184             |
| Installment                              | 19,768        | 70                          | 19,838              | 22,638            | 78                          | 22,716              |
| Consumer                                 | 1,015,809     | 2,979                       | 1,018,788           | 967,111           | 3,032                       | 970,143             |
| Leases                                   | 3,649         | 30                          | 3,679               | 2,856             | 14                          | 2,870               |
| Total loans                              | \$5,127,644   | \$ 14,016                   | \$5,141,660         | \$5,068,085       | \$ 14,239                   | \$5,082,324         |

\* Included within commercial, financial and agricultural loans and commercial real estate 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 \$10.5 million at June 30, 2016 and \$10.4 million at December 31, 2015, which represented a net deferred income position in both periods.



Table of Contents

Overdrawn deposit accounts of \$1.8 million and \$1.7 million have been reclassified to loans at June 30, 2016 and December 31, 2015, respectively, and are included in the commercial, financial and agricultural loan class above.

## Credit Quality

The following tables present the recorded investment in nonaccrual loans, accruing troubled debt restructurings (TDRs), and loans past due 90 days or more and still accruing by class of loan as of June 30, 2016 and December 31, 2015:

| (In thousands)                         | June 30, 2016       |   |  |                                 |
|--|---------------------|---|--|---------------------------------|
|  | Nonaccrual<br>Loans | Accruing<br>Troubled Debt<br>Restructurings | Loans<br>Past Due<br>90 Days<br>or More<br>and<br>Accruing | Total<br>Nonperforming<br>Loans |
| Commercial, financial and agricultural | \$29,159            | \$ 664                                      | \$ —   | \$ 29,823                       |
| Commercial real estate                 | 24,845              | 5,044                                       | —  | 29,889                          |
| Construction real estate:              |                     |   |  |                                 |
| SEPH commercial land and development   | 1,700               | —   | —  | 1,700                           |
| Remaining commercial                   | 3,962               | 424   | —  | 4,386                           |
| Mortgage                               | —                   | 107   | —  | 107                             |
| Installment                            | 51                  | 107   | —  | 158                             |
| Residential real estate:               |                     |   |  |                                 |
| Commercial                             | 25,070              | —   | —  | 25,070                          |
| Mortgage                               | 21,695              | 9,348                                       | 1,200  | 32,243                          |
| HELOC                                  | 1,738               | 726   | 233  | 2,697                           |
| Installment                            | 634                 | 607   | 152  | 1,393                           |
| Consumer                               | 2,575               | 751   | 771  | 4,097                           |
| Total loans                            | \$111,429           | \$ 17,778                                   | \$ 2,356   | \$ 131,563                      |

| (In thousands)                         | December 31, 2015   |   |  |                                 |
|--|---------------------|---|--|---------------------------------|
|  | Nonaccrual<br>Loans | Accruing<br>Troubled Debt<br>Restructurings | Loans<br>Past Due<br>90 Days<br>or More<br>and<br>Accruing | Total<br>Nonperforming<br>Loans |
| Commercial, financial and agricultural | \$21,676            | \$ 8,947                                    | \$ —   | \$ 30,623                       |
| Commercial real estate                 | 15,268              | 2,757                                       | —  | 18,025                          |
| Construction real estate:              |                     |   |  |                                 |
| SEPH commercial land and development   | 2,044               | —   | —  | 2,044                           |
| Remaining commercial                   | 4,162               | 514   | —  | 4,676                           |
| Mortgage                               | 7                   | 110   | —  | 117                             |
| Installment                            | 64                  | 114   | —  | 178                             |
| Residential real estate:               |                     |   |  |                                 |
| Commercial                             | 25,063              | 261   | —  | 25,324                          |
| Mortgage                               | 20,378              | 10,143                                      | 851  | 31,372                          |
| HELOC                                  | 1,749               | 873   | 27   | 2,649                           |

Edgar Filing: PARK NATIONAL CORP /OH/ - Form 10-Q

|             |          |           |          |            |
|-------------|----------|-----------|----------|------------|
| Installment | 1,657    | 635       | 4        | 2,296      |
| Consumer    | 3,819    | 734       | 1,093    | 5,646      |
| Total loans | \$95,887 | \$ 25,088 | \$ 1,975 | \$ 122,950 |

12

---

Table of Contents

The following table provides additional information regarding those nonaccrual loans and accruing TDR loans that were individually evaluated for impairment and those collectively evaluated for impairment as of June 30, 2016 and December 31, 2015.

| (In thousands)                         | June 30, 2016  |   |   | December 31, 2015                                    |   |   |
|--|--|---|---|--|---|---|
|  | 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 | \$29,823   | \$ 29,779                                   | \$ 44                                       | \$30,623   | \$ 30,595                                   | \$ 28                                       |
| Commercial real estate                 | 29,889   | 29,889                                      | —   | 18,025   | 18,025                                      | —   |
| Construction real estate:              |  |   |   |  |   |   |
| SEPH commercial land and development   | 1,700  | 1,700                                       | —   | 2,044  | 2,044                                       | —   |
| Remaining commercial                   | 4,386  | 4,386                                       | —   | 4,676  | 4,676                                       | —   |
| Mortgage                               | 107  | —   | 107   | 117  | —   | 117   |
| Installment                            | 158  | —   | 158   | 178  | —   | 178   |
| Residential real estate:               |  |   |   |  |   |   |
| Commercial                             | 25,070   | 25,070                                      | —   | 25,324   | 25,324                                      | —   |
| Mortgage                               | 31,043   | —   | 31,043                                      | 30,521   | —   | 30,521                                      |
| HELOC                                  | 2,464  | —   | 2,464                                       | 2,622  | —   | 2,622                                       |
| Installment                            | 1,241  | —   | 1,241                                       | 2,292  | —   | 2,292                                       |
| Consumer                               | 3,326  | 20  | 3,306                                       | 4,553  | —   | 4,553                                       |
| Total loans                            | \$129,207  | \$ 90,844                                   | \$ 38,363                                   | \$120,975  | \$ 80,664                                   | \$ 40,311                                   |

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, together with the related allowance recorded, as of June 30, 2016 and December 31, 2015.

| (In thousands)                         | June 30, 2016            |                     |                                     | December 31, 2015        |                     |                                     |
|--|--------------------------|---------------------|-------------------------------------|--------------------------|---------------------|-------------------------------------|
|  | 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 | \$31,097                 | \$ 16,996           | \$ —                                | \$32,583                 | \$ 18,763           | \$ —                                |
| Commercial real estate                 | 28,658                   | 28,363              | —                                   | 15,138                   | 14,916              | —                                   |
| Construction real estate:              |                          |                     |                                     |                          |                     |                                     |
| SEPH commercial land and development   | 6,768                    | 1,700               | —                                   | 10,834                   | 2,044               | —                                   |
| Remaining commercial                   | 1,714                    | 1,698               | —                                   | 2,506                    | 1,531               | —                                   |
| Residential real estate:               |                          |                     |                                     |                          |                     |                                     |
| Commercial                             | 24,297                   | 23,617              | —                                   | 23,798                   | 23,480              | —                                   |
| With an allowance recorded:            |                          |                     |                                     |                          |                     |                                     |
| Commercial, financial and agricultural | 16,917                   | 12,783              | 4,295                               | 16,155                   | 11,832              | 1,904                               |

Edgar Filing: PARK NATIONAL CORP /OH/ - Form 10-Q

|                           |           |           |          |           |           |          |
|---------------------------|-----------|-----------|----------|-----------|-----------|----------|
| Commercial real estate    | 1,526     | 1,526     | 275      | 3,195     | 3,109     | 381      |
| Construction real estate: |           |           |          |           |           |          |
| Remaining commercial      | 2,688     | 2,688     | 1,304    | 3,145     | 3,145     | 1,356    |
| Residential real estate:  |           |           |          |           |           |          |
| Commercial                | 1,502     | 1,453     | 393      | 1,951     | 1,844     | 550      |
| Consumer                  | 20        | 20        | 20       | —         | —         | —        |
| Total                     | \$115,187 | \$ 90,844 | \$ 6,287 | \$109,305 | \$ 80,664 | \$ 4,191 |

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 June 30, 2016 and December 31, 2015, there were \$20.2 million and \$24.2 million, respectively, of partial charge-offs on loans individually evaluated for impairment with no related allowance recorded and \$4.2 million and \$4.5 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 of \$6.3 million and \$4.2 million related to loans individually evaluated for impairment at June 30, 2016 and December 31, 2015, respectively. These loans with specific reserves had a recorded investment of \$18.5 million and \$19.9 million as of June 30, 2016 and December 31, 2015, 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 and six months ended June 30, 2016 and June 30, 2015:

| (In thousands)                         | Three Months Ended<br>June 30, 2016                 |                                   |                                  | Three Months Ended<br>June 30, 2015                 |                                   |                                  |
|--|---|-----------------------------------|----------------------------------|---|-----------------------------------|----------------------------------|
|  | Recorded<br>Investment<br>as of<br>June 30,<br>2016 | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized | Recorded<br>Investment<br>as of<br>June 30,<br>2015 | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
| Commercial, financial and agricultural | \$29,779  | \$ 28,600                         | \$ 308                           | \$20,429  | \$ 18,220                         | \$ 140                           |
| Commercial real estate                 | 29,889  | 22,177                            | 185                              | 17,647  | 16,850                            | 123                              |
| Construction real estate:              |   |                                   |                                  |   |                                   |                                  |
| SEPH commercial land and development   | 1,700   | 1,957                             | —                                | 2,047   | 2,068                             | —                                |
| Remaining commercial                   | 4,386   | 4,438                             | 15                               | 6,032   | 5,611                             | 6                                |
| Residential real estate:               |   |                                   |                                  |   |                                   |                                  |
| Commercial                             | 25,070  | 24,648                            | 340                              | 24,441  | 24,443                            | 273                              |
| Consumer                               | 20  | 5                                 | —                                | —   | —                                 | —                                |
| Total                                  | \$90,844  | \$ 81,825                         | \$ 848                           | \$70,596  | \$ 67,192                         | \$ 542                           |
|  |   |                                   |                                  |   |                                   |                                  |
| (In thousands)                         | Six Months Ended<br>June 30, 2016                   |                                   |                                  | Six Months Ended<br>June 30, 2015                   |                                   |                                  |
|  | Recorded<br>investment<br>as of<br>June 30,<br>2016 | Average<br>recorded<br>investment | Interest<br>income<br>recognized | Recorded<br>investment<br>as of<br>June 30,<br>2015 | Average<br>recorded<br>investment | Interest<br>income<br>recognized |
| Commercial, financial and agricultural | \$29,779  | \$ 29,319                         | \$ 546                           | \$20,429  | \$ 18,830                         | \$ 271                           |
| Commercial real estate                 | 29,889  | 19,863                            | 365                              | 17,647  | 18,058                            | 286                              |
| Construction real estate:              |   |                                   |                                  |   |                                   |                                  |
| SEPH commercial land and development   | 1,700   | 1,994                             | —                                | 2,047   | 2,072                             | 8                                |
| Remaining commercial                   | 4,386   | 4,570                             | 28                               | 6,032   | 5,644                             | 11                               |
| Residential real estate:               |   |                                   |                                  |   |                                   |                                  |
| Commercial                             | 25,070  | 24,795                            | 2,305                            | 24,441  | 24,864                            | 528                              |
| Consumer                               | 20  | 3                                 | —                                | —   | —                                 | —                                |
| Total                                  | \$90,844  | \$ 80,544                         | \$ 3,244                         | \$70,596  | \$ 69,468                         | \$ 1,104                         |



Table of Contents

The following tables present the aging of the recorded investment in past due loans as of June 30, 2016 and December 31, 2015 by class of loan.

| (In thousands)                         | June 30, 2016                |   | Total Past Due | Total Current (2) | Total Recorded Investment |
|--|------------------------------|---|----------------|-------------------|---------------------------|
|  | Accruing Past Due 30-89 Days | Past Due Nonaccrual Loans and Loans Past Due 90 Days or More and Accruing (1) |                |                   |                           |
| Commercial, financial and agricultural | \$311                        | \$ 8,178  | \$ 8,489       | \$ 959,086        | \$ 967,575                |
| Commercial real estate                 | 359                          | 2,863   | 3,222          | 1,131,467         | 1,134,689                 |
| Construction real estate:              |                              |   |                |                   |                           |
| SEPH commercial land and development   | —                            | 1,700   | 1,700          | —                 | 1,700                     |
| Remaining commercial                   | —                            | 110   | 110            | 127,297           | 127,407                   |
| Mortgage                               | 134                          | —   | 134            | 38,196            | 38,330                    |
| Installment                            | 216                          | 16  | 232            | 5,544             | 5,776                     |
| Residential real estate:               |                              |   |                |                   |                           |
| Commercial                             | 70                           | 10,696  | 10,766         | 399,526           | 410,292                   |
| Mortgage                               | 9,061                        | 11,121  | 20,182         | 1,179,223         | 1,199,405                 |
| HELOC                                  | 548                          | 902   | 1,450          | 212,731           | 214,181                   |
| Installment                            | 161                          | 548   | 709            | 19,129            | 19,838                    |
| Consumer                               | 9,766                        | 1,411   | 11,177         | 1,007,611         | 1,018,788                 |
| Leases                                 | —                            | —   | —              | 3,679             | 3,679                     |
| Total loans                            | \$20,626                     | \$ 37,545   | \$ 58,171      | \$ 5,083,489      | \$ 5,141,660              |

(1) Includes \$2.4 million of loans past due 90 days or more and accruing. The remaining are past due nonaccrual loans.

(2) Includes \$75.2 million of nonaccrual loans which are current in regards to contractual principal and interest payments.

| (in thousands)                         | December 31, 2015            |   | Total Past Due | Total Current (2) | Total Recorded Investment |
|--|------------------------------|---|----------------|-------------------|---------------------------|
|  | Accruing Past Due 30-89 Days | Past Due Nonaccrual Loans and Loans Past Due 90 Days or More and Accruing (1) |                |                   |                           |
| Commercial, financial and agricultural | \$670                        | \$ 7,536  | \$ 8,206       | \$ 950,958        | \$ 959,164                |
| Commercial real estate                 | 142                          | 530   | 672            | 1,116,940         | 1,117,612                 |
| Construction real estate:              |                              |   |                |                   |                           |
| SEPH commercial land and development   | —                            | 2,044   | 2,044          | —                 | 2,044                     |
| Remaining commercial                   | 165                          | 84  | 249            | 128,118           | 128,367                   |
| Mortgage                               | 63                           | 7   | 70             | 36,727            | 36,797                    |
| Installment                            | 200                          | 46  | 246            | 6,308             | 6,554                     |
| Residential real estate:               |                              |   |                |                   |                           |
| Commercial                             | 325                          | 19,521  | 19,846         | 391,739           | 411,585                   |
| Mortgage                               | 10,569                       | 8,735   | 19,304         | 1,192,984         | 1,212,288                 |
| HELOC                                  | 487                          | 186   | 673            | 211,511           | 212,184                   |
| Installment                            | 426                          | 318   | 744            | 21,972            | 22,716                    |

Edgar Filing: PARK NATIONAL CORP /OH/ - Form 10-Q

|             |          |           |           |              |              |
|-------------|----------|-----------|-----------|--------------|--------------|
| Consumer    | 11,458   | 3,376     | 14,834    | 955,309      | 970,143      |
| Leases      | —        | —         | —         | 2,870        | 2,870        |
| Total loans | \$24,505 | \$ 42,383 | \$ 66,888 | \$ 5,015,436 | \$ 5,082,324 |

(1) Includes \$2.0 million of loans past due 90 days or more and accruing. The remaining are past due nonaccrual loans.

(2) Includes \$55.5 million of nonaccrual loans which are current in regards to contractual principal and interest payments.



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 June 30, 2016 and December 31, 2015 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 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 (graded an 1 through a 4) 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 Park'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 placed on nonaccrual status and 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 June 30, 2016 and December 31, 2015 for all commercial loans:

| (In thousands)                           | June 30, 2016 |          | Nonaccrual<br>and Accruing<br>Troubled Debt<br>Restructurings | Pass-Rated  | Recorded<br>Investment |
|--|---------------|----------|---|-------------|------------------------|
|  | 5 Rated       | 6 Rated  |   |             |                        |
| Commercial, financial and agricultural * | \$3,471       | \$ 105   | \$ 29,823   | \$934,176   | \$967,575              |
| Commercial real estate *                 | 4,471         | 447      | 29,889  | 1,099,882   | 1,134,689              |
| Construction real estate:                |               |          |   |             |                        |
| SEPH commercial land and development     | —             | —        | 1,700   | —           | 1,700                  |
| Remaining commercial                     | 706           | 120      | 4,386   | 122,195     | 127,407                |
| Residential real estate:                 |               |          |   |             |                        |
| Commercial                               | 1,329         | 372      | 25,070  | 383,521     | 410,292                |
| Leases                                   | —             | —        | —   | 3,679       | 3,679                  |
| Total commercial loans                   | \$9,977       | \$ 1,044 | \$ 90,868   | \$2,543,453 | \$2,645,342            |

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



Table of Contents

| (In thousands)                           | December 31, 2015 |         |   |             |                        |
|--|-------------------|---------|---|-------------|------------------------|
|  | 5 Rated           | 6 Rated | Nonaccrual<br>and Accruing<br>Troubled Debt<br>Restructurings | Pass-Rated  | Recorded<br>Investment |
| Commercial, financial and agricultural * | \$4,392           | \$347   | \$ 30,623   | \$923,802   | \$959,164              |
| Commercial real estate *                 | 14,880            | 3,417   | 18,025  | 1,081,290   | 1,117,612              |
| Construction real estate:                |                   |         |   |             |                        |
| SEPH commercial land and development     | —                 | —       | 2,044   | —           | 2,044                  |
| Remaining commercial                     | 2,151             | 122     | 4,676   | 121,418     | 128,367                |
| Residential real estate:                 |                   |         |   |             |                        |
| Commercial                               | 3,280             | 386     | 25,324  | 382,595     | 411,585                |
| Leases                                   | —                 | —       | —   | 2,870       | 2,870                  |
| Total Commercial Loans                   | \$24,703          | \$4,272 | \$ 80,692   | \$2,511,975 | \$2,621,642            |

\* Included within commercial, financial and agricultural loans and commercial real estate 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. A court's discharge of a borrower's debt in a Chapter 7 bankruptcy is considered a concession when the borrower does not reaffirm the discharged debt. Certain loans which were modified during the three-month and six-month periods ended June 30, 2016 and June 30, 2015 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. During the three-month and six-month periods ended June 30, 2016, Park removed the TDR classification on \$917,000 and \$1.7 million, respectively, of loans that met the requirements discussed above. The TDR classification was not removed on any loans during the three-month and six-month periods ended June 30, 2015.

At June 30, 2016 and December 31, 2015, there were \$49.6 million and \$41.1 million, respectively, of TDRs included in the nonaccrual loan totals. At June 30, 2016 and December 31, 2015, \$42.0 million and \$19.1 million of these nonaccrual TDRs were performing in accordance with the terms of the restructured note. As of June 30, 2016 and December 31, 2015, there were \$17.8 million and \$25.1 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 June 30, 2016 and December 31, 2015, Park had commitments to lend \$2.5 million and \$2.3 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 June 30, 2016 and December 31, 2015 was \$4.0 million and \$2.3 million, respectively. Modifications made in 2015 and 2016 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 Accounting Standards Codification (ASC) 310. Additional specific reserves of \$950,000 and \$975,000 were recorded during the three-month and six-month periods ended June 30, 2016, respectively, as a result of TDRs identified in 2016. Additional specific reserves of \$104,000 and \$961,000 were recorded during the three-month and six-month periods ended June 30, 2015, respectively, as a result of TDRs identified in 2015.

The terms of certain other loans were modified during the six-month periods ended June 30, 2016 and June 30, 2015 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 June 30, 2016 and June 30, 2015 of \$33,000 and \$112,000, 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 of \$4.4 million and \$10.4 million, as of June 30, 2016 and June 30, 2015, 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 and six-month periods ended June 30, 2016 and June 30, 2015, as well as the recorded investment of these contracts at June 30, 2016 and June 30, 2015. 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.

| (In thousands)                         | Three Months Ended        |          |            |                                 |
|--|---------------------------|----------|------------|---------------------------------|
|  | June 30, 2016             |          |            | Total<br>Recorded<br>Investment |
|  | Number<br>of<br>Contracts | Accruing | Nonaccrual |                                 |
| Commercial, financial and agricultural | 10                        | \$ 51    | \$ 3,248   | \$ 3,299                        |
| Commercial real estate                 | 4                         | 3,326    | 581        | 3,907                           |
| Construction real estate:              |                           |          |            |                                 |
| SEPH commercial land and development   | —                         | —        | —          | —                               |
| Remaining commercial                   | 1                         | —        | 196        | 196                             |
| Mortgage                               | —                         | —        | —          | —                               |
| Installment                            | 1                         | —        | 10         | 10                              |
| Residential real estate:               |                           |          |            |                                 |
| Commercial                             | 1                         | —        | 132        | 132                             |
| Mortgage                               | 4                         | —        | 441        | 441                             |
| HELOC                                  | 2                         | 17       | 38         | 55                              |
| Installment                            | 2                         | 39       | 3          | 42                              |
| Consumer                               | 85                        | 122      | 623        | 745                             |
| Total loans                            | 110                       | \$ 3,555 | \$ 5,272   | \$ 8,827                        |



Table of Contents

| (In thousands)                         | Three Months Ended<br>June 30, 2015 |          |            | Total<br>Recorded<br>Investment |
|--|-------------------------------------|----------|------------|---------------------------------|
|  | Number<br>of<br>Contracts           | Accruing | Nonaccrual |                                 |
| Commercial, financial and agricultural | 12                                  | \$ 896   | \$ 893     | \$ 1,789                        |
| Commercial real estate                 | —                                   | —        | —          | —                               |
| Construction real estate:              |                                     |          |            |                                 |
| SEPH commercial land and development   | —                                   | —        | —          | —                               |
| Remaining commercial                   | —                                   | —        | —          | —                               |
| Mortgage                               | —                                   | —        | —          | —                               |
| Installment                            | 1                                   | —        | 20         | 20                              |
| Residential real estate:               |                                     |          |            |                                 |
| Commercial                             | 6                                   | —        | 832        | 832                             |
| Mortgage                               | 8                                   | 39       | 502        | 541                             |
| HELOC                                  | 6                                   | 37       | 37         | 74                              |
| Installment                            | 3                                   | —        | 57         | 57                              |
| Consumer                               | 90                                  | 40       | 626        | 666                             |
| Total loans                            | 126                                 | \$ 1,012 | \$ 2,967   | \$ 3,979                        |

Of those loans which were modified and determined to be a TDR during the three-month period ended June 30, 2016, \$1.9 million were on nonaccrual status as of December 31, 2015. Of those loans which were modified and determined to be a TDR during the three-month period ended June 30, 2015, \$301,000 were on nonaccrual status as of December 31, 2014.

| (In thousands)                         | Six Months Ended<br>June 30, 2016 |          |            | Total<br>Recorded<br>Investment |
|--|-----------------------------------|----------|------------|---------------------------------|
|  | Number<br>of<br>Contracts         | Accruing | Nonaccrual |                                 |
| Commercial, financial and agricultural | 17                                | \$ 51    | \$ 3,945   | \$ 3,996                        |
| Commercial real estate                 | 4                                 | 3,327    | 581        | 3,908                           |
| Construction real estate:              |                                   |          |            |                                 |
| SEPH commercial land and development   | —                                 | —        | —          | —                               |
| Remaining commercial                   | 1                                 | —        | 196        | 196                             |
| Mortgage                               | —                                 | —        | —          | —                               |
| Installment                            | 1                                 | —        | 10         | 10                              |
| Residential real estate:               |                                   |          |            |                                 |
| Commercial                             | 3                                 | —        | 695        | 695                             |
| Mortgage                               | 9                                 | 98       | 654        | 752                             |
| HELOC                                  | 8                                 | 80       | 157        | 237                             |
| Installment                            | 2                                 | 39       | 3          | 42                              |
| Consumer                               | 149                               | 134      | 824        | 958                             |
| Total loans                            | 194                               | \$ 3,729 | \$ 7,065   | \$ 10,794                       |

Table of Contents

| (In thousands)                         | Six Months Ended |           |            |            |
|--|------------------|-----------|------------|------------|
|  | June 30, 2015    |           |            |            |
|  | Number           | Accruing  | Nonaccrual | Total      |
|  | of               | Contracts | Contracts  | Recorded   |
|  |                  |           |            | Investment |
| Commercial, financial and agricultural | 25               | \$ 1,107  | \$ 1,399   | \$ 2,506   |
| Commercial real estate                 | 6                | —         | 1,291      | 1,291      |
| Construction real estate:              |                  |           |            |            |
| SEPH commercial land and development   | —                | —         | —          | —          |
| Remaining commercial                   | —                | —         | —          | —          |
| Mortgage                               | 1                | —         | 20         | 20         |
| Installment                            | 1                | —         | 21         | 21         |
| Residential real estate:               |                  |           |            |            |
| Commercial                             | 9                | —         | 1,266      | 1,266      |
| Mortgage                               | 15               | 365       | 704        | 1,069      |
| HELOC                                  | 16               | 228       | 114        | 342        |
| Installment                            | 3                | —         | 57         | 57         |
| Consumer                               | 156              | 53        | 791        | 844        |
| Total loans                            | 232              | \$ 1,753  | \$ 5,663   | \$ 7,416   |

Of those loans which were modified and determined to be a TDR during the six-month period ended June 30, 2016, \$2.8 million were on nonaccrual status as of December 31, 2015. Of those loans which were modified and determined to be a TDR during the six-month period ended June 30, 2015, \$1.3 million were on nonaccrual status as of December 31, 2014.

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 and six-month periods ended June 30, 2016 and June 30, 2015, 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  |            | Three Months  |            |
|--|---------------|------------|---------------|------------|
|  | Ended         |            | Ended         |            |
|  | June 30, 2016 |            | June 30, 2015 |            |
|  | Number        | Recorded   | Number        | Recorded   |
|  | Contracts     | Investment | Contracts     | Investment |
| Commercial, financial and agricultural | —             | \$ —       | 5             | \$ 56      |
| Commercial real estate                 | 1             | 582        | 2             | 250        |
| Construction real estate:              |               |            |               |            |
| SEPH commercial land and development   | —             | —          | —             | —          |
| Remaining commercial                   | —             | —          | —             | —          |
| Mortgage                               | —             | —          | —             | —          |
| Installment                            | —             | —          | 1             | 20         |
| Residential real estate:               |               |            |               |            |
| Commercial                             | 2             | 563        | 1             | 102        |
| Mortgage                               | 3             | 288        | 13            | 793        |
| HELOC                                  | —             | —          | 1             | 5          |
| Installment                            | 1             | 3          | 3             | 60         |
| Consumer                               | 39            | 311        | 60            | 441        |



|             |    |          |    |          |
|-------------|----|----------|----|----------|
| Leases      | —  | —        | —  | —        |
| Total loans | 46 | \$ 1,747 | 86 | \$ 1,727 |

Of the \$1.7 million in modified TDRs which defaulted during the three months ended June 30, 2016, \$58,000 were accruing loans and \$1.7 million were nonaccrual loans. Of the \$1.7 million in modified TDRs which defaulted during the three months ended June 30, 2015, there were \$118,000 accruing loans and \$1.6 million were nonaccrual loans.

Table of Contents

| (In thousands)                         | Six Months<br>Ended<br>June 30, 2016 |                        | Six Months<br>Ended<br>June 30, 2015 |                        |
|--|--------------------------------------|------------------------|--------------------------------------|------------------------|
|  | Number<br>of<br>Contracts            | Recorded<br>Investment | Number<br>of<br>Contracts            | Recorded<br>Investment |
| Commercial, financial and agricultural | —                                    | \$ —                   | 5                                    | \$ 56                  |
| Commercial real estate                 | 1                                    | 582                    | 2                                    | 250                    |
| Construction real estate:              |                                      |                        |                                      |                        |
| SEPH commercial land and development   | —                                    | —                      | —                                    | —                      |
| Remaining commercial                   | —                                    | —                      | —                                    | —                      |
| Mortgage                               | —                                    | —                      | —                                    | —                      |
| Installment                            | —                                    | —                      | 1                                    | 20                     |
| Residential real estate:               |                                      |                        |                                      |                        |
| Commercial                             | 2                                    | 563                    | 1                                    | 102                    |
| Mortgage                               | 3                                    | 288                    | 14                                   | 796                    |
| HELOC                                  | —                                    | —                      | 1                                    | 5                      |
| Installment                            | 1                                    | 3                      | 3                                    | 60                     |
| Consumer                               | 42                                   | 339                    | 64                                   | 464                    |
| Leases                                 | —                                    | —                      | —                                    | —                      |
| Total loans                            | 49                                   | \$ 1,775               | 91                                   | \$ 1,753               |

Of the \$1.8 million in modified TDRs which defaulted during the six months ended June 30, 2016, \$58,000 were accruing loans and \$1.7 million were nonaccrual loans. Of the \$1.8 million in modified TDRs which defaulted during the six months ended June 30, 2015, \$118,000 were accruing loans and \$1.7 million were nonaccrual loans.

## 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 2015 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.

Management extended the historical loss period to six years in 2014 and to seven years in 2015. Due to the same factors that management considered in 2013, management has continued to apply more weight to the 2009 through 2011 periods compared to the 2012 through 2015 periods.

Table of Contents

The activity in the allowance for loan losses for the three and six months ended June 30, 2016 and June 30, 2015 is summarized below.

| (In thousands)               | Three Months Ended<br>June 30, 2016          |                           |                             |                            |           |        | Total    |
|------------------------------|--|---------------------------|-----------------------------|----------------------------|-----------|--------|----------|
|                              | Commercial,<br>financial and<br>agricultural | Commercial<br>real estate | Construction<br>real estate | Residential<br>real estate | Consumer  | Leases |          |
| Allowance for loan losses:   |  |                           |                             |                            |           |        |          |
| Beginning balance            | \$14,240                                     | \$ 9,452                  | \$ 8,687                    | \$ 13,388                  | \$ 11,180 | \$ 1   | \$56,948 |
| Charge-offs                  | 870  | 77                        | 18                          | 736                        | 2,718     | —      | 4,419    |
| Recoveries                   | 216  | 1,814                     | 110                         | 407                        | 985       | 1      | 3,533    |
| Net charge-offs/(recoveries) | 654  | (1,737 )                  | (92 )                       | 329                        | 1,733     | (1 )   | 886      |
| Provision/(recovery)         | 2,892  | (1,986 )                  | (523 )                      | 121                        | 2,134     | (1 )   | 2,637    |
| Ending balance               | \$16,478                                     | \$ 9,203                  | \$ 8,256                    | \$ 13,180                  | \$ 11,581 | \$ 1   | \$58,699 |

| (In thousands)               | Three Months Ended<br>June 30, 2015          |                           |                             |                            |           |        | Total    |
|------------------------------|--|---------------------------|-----------------------------|----------------------------|-----------|--------|----------|
|                              | Commercial,<br>financial and<br>agricultural | Commercial<br>real estate | Construction<br>real estate | Residential<br>real estate | Consumer  | Leases |          |
| Allowance for loan losses:   |  |                           |                             |                            |           |        |          |
| Beginning balance            | \$11,361                                     | \$ 9,296                  | \$ 8,755                    | \$ 14,512                  | \$ 11,484 | \$ —   | \$55,408 |
| Charge-offs                  | 499  | 153                       | 37                          | 735                        | 1,603     | —      | 3,027    |
| Recoveries                   | 281  | 1,128                     | 679                         | 423                        | 922       | 1      | 3,434    |
| Net charge-offs/(recoveries) | 218  | (975 )                    | (642 )                      | 312                        | 681       | (1 )   | (407 )   |
| Provision/(recovery)         | 981  | (804 )                    | (727 )                      | 1,068                      | 1,095     | (1 )   | 1,612    |
| Ending balance               | \$12,124                                     | \$ 9,467                  | \$ 8,670                    | \$ 15,268                  | \$ 11,898 | \$ —   | \$57,427 |

| (In thousands)               | Six Months Ended<br>June 30, 2016            |                           |                             |                            |           |        | Total    |
|------------------------------|--|---------------------------|-----------------------------|----------------------------|-----------|--------|----------|
|                              | Commercial,<br>financial and<br>agricultural | Commercial<br>real estate | Construction<br>real estate | Residential<br>real estate | Consumer  | Leases |          |
| Allowance for loan losses:   |  |                           |                             |                            |           |        |          |
| Beginning balance            | \$13,694                                     | \$ 9,197                  | \$ 8,564                    | \$ 13,514                  | \$ 11,524 | \$ 1   | \$56,494 |
| Charge-offs                  | 1,144  | 78                        | 18                          | 1,483                      | 5,097     | —      | 7,820    |
| Recoveries                   | 643  | 2,032                     | 1,049                       | 878                        | 1,875     | 1      | 6,478    |
| Net charge-offs/(recoveries) | 501  | (1,954 )                  | (1,031 )                    | 605                        | 3,222     | (1 )   | 1,342    |
| Provision/(recovery)         | 3,285  | (1,948 )                  | (1,339 )                    | 271                        | 3,279     | (1 )   | 3,547    |
| Ending balance               | \$16,478                                     | \$ 9,203                  | \$ 8,256                    | \$ 13,180                  | \$ 11,581 | \$ 1   | \$58,699 |

| (In thousands)             | Six Months Ended<br>June 30, 2015            |                           |                             |                            |           |        | Total    |
|----------------------------|--|---------------------------|-----------------------------|----------------------------|-----------|--------|----------|
|                            | Commercial,<br>financial and<br>agricultural | Commercial<br>real estate | Construction<br>real estate | Residential<br>real estate | Consumer  | Leases |          |
| Allowance for loan losses: |  |                           |                             |                            |           |        |          |
| Beginning balance          | \$10,719                                     | \$ 8,808                  | \$ 8,652                    | \$ 14,772                  | \$ 11,401 | \$ —   | \$54,352 |

Edgar Filing: PARK NATIONAL CORP /OH/ - Form 10-Q

|                              |          |          |          |           |           |      |          |
|------------------------------|----------|----------|----------|-----------|-----------|------|----------|
| Charge-offs                  | 851      | 283      | 37       | 1,157     | 4,117     | —    | 6,445    |
| Recoveries                   | 572      | 1,802    | 964      | 1,347     | 1,588     | 3    | 6,276    |
| Net charge-offs/(recoveries) | 279      | (1,519)  | (927)    | (190)     | 2,529     | (3)  | 169      |
| Provision/(recovery)         | 1,684    | (860)    | (909)    | 306       | 3,026     | (3)  | 3,244    |
| Ending balance               | \$12,124 | \$ 9,467 | \$ 8,670 | \$ 15,268 | \$ 11,898 | \$ — | \$57,427 |

Table of Contents

Loans collectively evaluated for impairment in the following tables include all performing loans at June 30, 2016 and December 31, 2015, 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 June 30, 2016 and December 31, 2015, 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 2015 Annual Report).

The composition of the allowance for loan losses at June 30, 2016 and December 31, 2015 was as follows:

| (In thousands)   | June 30, 2016                                |                           | Commercial  | Construction | Residential | Consumer | Leases      | Total |
|--|--|---------------------------|-------------|--------------|-------------|----------|-------------|-------|
|  | Commercial,<br>financial and<br>agricultural | Commercial<br>real estate | real estate | real estate  | real estate |          |             |       |
| Allowance for loan losses:                                 |  |                           |             |              |             |          |             |       |
| Ending allowance balance attributed to loans:              |  |                           |             |              |             |          |             |       |
| Individually evaluated for impairment                      | \$4,295                                      | \$275                     | \$1,304     | \$393        | \$20        | \$—      | \$6,287     |       |
| Collectively evaluated for impairment                      | 12,183                                       | 8,928                     | 6,952       | 12,787       | 11,561      | 1        | 52,412      |       |
| Total ending allowance balance                             | \$16,478                                     | \$9,203                   | \$8,256     | \$13,180     | \$11,581    | \$1      | \$58,699    |       |
| Loan balance:  |  |                           |             |              |             |          |             |       |
| Loans individually evaluated for impairment                | \$29,774                                     | \$29,880                  | \$6,084     | \$25,070     | \$20        | \$—      | \$90,828    |       |
| Loans collectively evaluated for impairment                | 934,298                                      | 1,101,187                 | 166,740     | 1,815,153    | 1,015,789   | 3,649    | 5,036,816   |       |
| Total ending loan balance                                  | \$964,072                                    | \$1,131,067               | \$172,824   | \$1,840,223  | \$1,015,809 | \$3,649  | \$5,127,644 |       |
| Allowance for loan losses as a percentage of loan balance: |  |                           |             |              |             |          |             |       |
| Loans individually evaluated for impairment                | 14.43  | % 0.92                    | % 21.43     | % 1.57       | % —         | % —      | % 6.92      | %     |
| Loans collectively evaluated for impairment                | 1.30   | % 0.81                    | % 4.17      | % 0.70       | % 1.14      | % 0.03   | % 1.04      | %     |
| Total  | 1.71   | % 0.81                    | % 4.78      | % 0.72       | % 1.14      | % 0.03   | % 1.14      | %     |
| Recorded investment:                                       |  |                           |             |              |             |          |             |       |
| Loans individually evaluated for                           | \$29,779                                     | \$29,889                  | \$6,086     | \$25,070     | \$20        | \$—      | \$90,844    |       |

|                       |           |             |           |             |             |         |             |
|-----------------------|-----------|-------------|-----------|-------------|-------------|---------|-------------|
| impairment            |           |             |           |             |             |         |             |
| Loans collectively    |           |             |           |             |             |         |             |
| evaluated for         | 937,796   | 1,104,800   | 167,127   | 1,818,646   | 1,018,768   | 3,679   | 5,050,816   |
| impairment            |           |             |           |             |             |         |             |
| Total ending recorded | \$967,575 | \$1,134,689 | \$173,213 | \$1,843,716 | \$1,018,788 | \$3,679 | \$5,141,660 |
| investment            |           |             |           |             |             |         |             |

Table of Contents

| (In thousands)   | December 31, 2015                            |                           |                             |                            |           |         |        | Total       |
|--|--|---------------------------|-----------------------------|----------------------------|-----------|---------|--------|-------------|
|  | Commercial,<br>financial and<br>agricultural | Commercial<br>real estate | Construction<br>real estate | Residential<br>real estate | Consumer  | Leases  |        |             |
| Allowance for loan losses:                                 |  |                           |                             |                            |           |         |        |             |
| Ending allowance balance attributed to loans:              |  |                           |                             |                            |           |         |        |             |
| Individually evaluated for impairment                      | \$1,904                                      | \$381                     | \$1,356                     | \$550                      | \$—       | \$—     |        | \$4,191     |
| Collectively evaluated for impairment                      | 11,790                                       | 8,816                     | 7,208                       | 12,964                     | 11,524    | 1       |        | 52,303      |
| Total ending allowance balance                             | \$13,694                                     | \$9,197                   | \$8,564                     | \$13,514                   | \$11,524  | \$1     |        | \$56,494    |
| Loan balance:  |  |                           |                             |                            |           |         |        |             |
| Loans individually evaluated for impairment                | \$30,545                                     | \$18,015                  | \$6,716                     | \$25,323                   | \$—       | \$—     |        | \$80,599    |
| Loans collectively evaluated for impairment                | 925,182                                      | 1,095,588                 | 166,629                     | 1,830,120                  | 967,111   | 2,856   |        | 4,987,486   |
| Total ending loan balance                                  | \$955,727                                    | \$1,113,603               | \$173,345                   | \$1,855,443                | \$967,111 | \$2,856 |        | \$5,068,085 |
| Allowance for loan losses as a percentage of loan balance: |  |                           |                             |                            |           |         |        |             |
| Loans individually evaluated for impairment                | 6.23   | % 2.11                    | % 20.19                     | % 2.17                     | % —       | % —     | % 5.20 | %           |
| Loans collectively evaluated for impairment                | 1.27   | % 0.80                    | % 4.33                      | % 0.71                     | % 1.19    | % 0.04  | % 1.05 | %           |
| Total  | 1.43   | % 0.83                    | % 4.94                      | % 0.73                     | % 1.19    | % 0.04  | % 1.11 | %           |
| Recorded investment:                                       |  |                           |                             |                            |           |         |        |             |
| Loans individually evaluated for impairment                | \$30,595                                     | \$18,025                  | \$6,720                     | \$25,324                   | \$—       | \$—     |        | \$80,664    |
| Loans collectively evaluated for impairment                | 928,569                                      | 1,099,587                 | 167,042                     | 1,833,449                  | 970,143   | 2,870   |        | 5,001,660   |
| Total ending recorded investment                           | \$959,164                                    | \$1,117,612               | \$173,762                   | \$1,858,773                | \$970,143 | \$2,870 |        | \$5,082,324 |

Note 5 – Other Real Estate Owned ("OREO")

Park typically transfers a loan to OREO at the time that Park takes deed/title to the asset. The carrying amount of foreclosed properties held at June 30, 2016 and December 31, 2015 are listed below, as well as the recorded investment of loans secured by residential real estate properties for which formal foreclosure proceedings were in process at those dates.

| (in thousands)           | June 30,<br>2016 | December<br>31, 2015 |
|--------------------------|------------------|----------------------|
| OREO:                    |                  |                      |
| Commercial real estate   | \$8,182          | \$ 8,333             |
| Construction real estate | 7,095            | 7,259                |
| Residential real estate  | 2,289            | 3,059                |
| Total OREO               | \$17,566         | \$ 18,651            |

Loans in process of foreclosure:

|                         |         |          |
|-------------------------|---------|----------|
| Residential real estate | \$2,599 | \$ 2,021 |
|-------------------------|---------|----------|



Table of Contents

## Note 6 – Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings per common share for the three and six months ended June 30, 2016 and 2015.

| (In thousands, except share and per common share data)  | Three Months Ended June 30, |            | Six Months Ended June 30, |            |
|---|-----------------------------|------------|---------------------------|------------|
|   | 2016                        | 2015       | 2016                      | 2015       |
| Numerator:  |                             |            |                           |            |
| Net income available to common shareholders   | \$ 19,998                   | \$ 21,039  | \$ 38,684                 | \$ 40,083  |
| Denominator:  |                             |            |                           |            |
| Weighted-average common shares outstanding  | 15,330,802                  | 15,370,882 | 15,330,802                | 15,375,026 |
| Effect of dilutive performance-based restricted stock units   | 68,481                      | 36,999     | 72,088                    | 36,894     |
| Weighted-average common shares outstanding adjusted for the effect of dilutive performance-based restricted stock units | 15,399,283                  | 15,407,881 | 15,402,890                | 15,411,920 |
| Earnings per common share:  |                             |            |                           |            |
| Basic earnings per common share   | \$ 1.30                     | \$ 1.37    | \$ 2.52                   | \$ 2.61    |
| Diluted earnings per common share   | \$ 1.30                     | \$ 1.37    | \$ 2.51                   | \$ 2.60    |

Park awarded 41,550 and 23,025 performance-based restricted stock units ("PBRsUs") to certain employees during the six months ended June 30, 2016 and 2015, respectively. No PBRsUs were awarded during the three months ended June 30, 2016 and 2015. As of June 30, 2016, 85,425 PBRsUs were outstanding. The PBRsUs vest based on service and performance conditions. The dilutive effect of the outstanding PBRsUs was the addition of 68,481 and 36,999 common shares for the three months ended June 30, 2016 and 2015, respectively, and 72,088 and 36,894 common shares for the six months ended June 30, 2016 and 2015, respectively.

Park repurchased no common shares during the three and six months ended June 30, 2016. Park repurchased 21,500 common shares during the six months ended June 30, 2015, and no common shares during the three months ended June 30, 2015 to fund the PBRsUs and common shares awarded to directors of Park and to directors of Park's subsidiary PNB (and its divisions).

## Note 7 – Segment Information

The Corporation is a financial holding company headquartered in Newark, Ohio. The operating segments for the Corporation are its chartered national bank subsidiary, The Park National Bank (headquartered in Newark, Ohio) ("PNB"), SE Property Holdings, LLC ("SEPH"), and Guardian Financial Services Company ("GFSC").

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 the company's performance, better understand the potential for future cash flows, and make more informed judgments about the company as a whole. Park has three operating segments, as: (i) discrete financial information is available for each operating segment and (ii) the segments are aligned with internal reporting to Park's Chief Executive Officer and President, who is the chief operating decision maker.

Table of Contents

## Operating Results for the three months ended June 30, 2016

| (In thousands)                          | PNB      | GFSC    | SEPH     | All Other  | Total    |
|---|----------|---------|----------|------------|----------|
| Net interest income (loss)              | \$56,006 | \$1,440 | \$71     | \$(32 )    | \$57,485 |
| Provision for (recovery of) loan losses | 1,362    | 1,444   | (169 )   | —          | 2,637    |
| Other income                            | 18,508   | —       | 112      | 116        | 18,736   |
| Other expense (income)                  | 42,731   | (966 )  | 1,332    | 2,209      | 45,306   |
| Income (loss) before income taxes       | \$30,421 | \$962   | \$(980 ) | \$(2,125 ) | \$28,278 |
| Federal income taxes (benefit)          | 9,343    | 336     | (343 )   | (1,056 )   | 8,280    |
| Net income (loss)                       | \$21,078 | \$626   | \$(637 ) | \$(1,069 ) | \$19,998 |

Assets (as of June 30, 2016) \$7,351,293 \$32,546 \$32,822 \$14,949 \$7,431,610

## Operating Results for the three months ended June 30, 2015

| (In thousands)                          | PNB      | GFSC    | SEPH     | All Other  | Total    |
|---|----------|---------|----------|------------|----------|
| Net interest income (expense)           | \$54,766 | \$1,679 | \$(14 )  | \$84       | \$56,515 |
| Provision for (recovery of) loan losses | 2,720    | 309     | (1,417 ) | —          | 1,612    |
| Other income (loss)                     | 18,720   | (1 )    | 327      | 145        | 19,191   |
| Other expense                           | 39,586   | 759     | 2,385    | 1,937      | 44,667   |
| Income (loss) before income taxes       | \$31,180 | \$610   | \$(655 ) | \$(1,708 ) | \$29,427 |
| Federal income taxes (benefit)          | 9,847    | 203     | (229 )   | (1,433 )   | 8,388    |
| Net income (loss)                       | \$21,333 | \$407   | \$(426 ) | \$(275 )   | \$21,039 |

Assets (as of June 30, 2015) \$7,223,801 \$37,124 \$38,873 \$9,771 \$7,309,569

## Operating Results for the six months ended June 30, 2016

| (in thousands) | PNB | GFSC | SEPH | All Other | Total |
|----------------|-----|------|------|-----------|-------|
|----------------|-----|------|------|-----------|-------|

Ne