PARK NATIONAL CORP /OH/
Form 10-Q
July 27, 2018
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, 2018

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 ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ý No ¨

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

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
(Do not check if a smaller reporting company)		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

Yes ¨ No ý

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 15,686,552 Common shares, no par value per share, outstanding at July 26, 2018.

PARK NATIONAL CORPORATION

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

	June 30, 2018	December 31, 2017
Assets:		
Cash and due from banks	$122,915	$131,946
Money market instruments	23,244	37,166
Cash and cash equivalents	146,159	169,112
Investment securities:		
Debt securities available-for-sale, at fair value (amortized cost of $1,127,511 and $1,097,645 at June 30, 2018 and December 31, 2017, respectively)	1,091,678	1,091,881
Debt securities held-to-maturity, at amortized cost (fair value of $348,192 and $363,779 at June 30, 2018 and December 31, 2017, respectively)	351,431	357,197
Other investment securities	70,129	63,746
Total investment securities	1,513,238	1,512,824
Loans	5,324,974	5,372,483
Allowance for loan losses	(49,452)	(49,988)
Net loans	5,275,522	5,322,495
Bank owned life insurance	190,245	189,322
Prepaid assets	100,551	97,712
Goodwill	72,334	72,334
Premises and equipment, net	55,555	55,901
Affordable housing tax credit investments	45,967	49,669
Other real estate owned	5,729	14,190
Accrued interest receivable	21,970	22,164
Mortgage loan servicing rights	10,077	9,688
Other	24,809	22,209
Total assets	$7,462,156	$7,537,620
Liabilities and Shareholders' Equity:		
Deposits:		
Noninterest bearing	$1,591,962	$1,633,941
Interest bearing	4,423,882	4,183,385
Total deposits	6,015,844	5,817,326
Short-term borrowings	216,139	391,289
Long-term debt	400,000	500,000
Subordinated notes	15,000	15,000
Unfunded commitments in affordable housing tax credit investments	14,282	14,282
Accrued interest payable	2,325	2,278
Other	43,478	41,344
Total liabilities	$6,707,068	$6,781,519
Shareholders' equity:		
Preferred shares (200,000 shares authorized; 0 shares issued)	$—	$—
Common shares (No par value; 20,000,000 shares authorized; 16,150,732 shares issued at June 30, 2018 and 16,150,752 shares issued at December 31, 2017)	308,144	307,726

Retained earnings	593,512	561,908
Treasury shares (899,637 shares at June 30, 2018 and 862,558 at December 31, 2017)	(91,559)	(87,079)
Accumulated other comprehensive loss, net of taxes	(55,009)	(26,454)
Total shareholders' equity	755,088	756,101
Total liabilities and shareholders’ equity	$7,462,156	$7,537,620

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest and dividend income:				
Interest and fees on loans	$64,496	$61,222	$128,898	$121,130
Interest and dividends on:				
Obligations of U.S. Government, its agencies and other securities - taxable	7,746	6,892	14,513	14,030
Obligations of states and political subdivisions - tax-exempt	2,178	1,664	4,352	3,124
Other interest income	271	698	642	947
Total interest and dividend income	74,691	70,476	148,405	139,231
Interest expense:				
Interest on deposits:				
Demand and savings deposits	4,107	2,291	7,397	3,905
Time deposits	2,886	2,457	5,437	4,618
Interest on borrowings:				
Short-term borrowings	420	184	995	419
Long-term debt	2,536	5,766	4,984	11,559
Total interest expense	9,949	10,698	18,813	20,501
Net interest income	64,742	59,778	129,592	118,730
Provision for loan losses	1,386	4,581	1,646	5,457
Net interest income after provision for loan losses	63,356	55,197	127,946	113,273
Other income:				
Income from fiduciary activities	6,666	6,025	13,061	11,539
Service charges on deposit accounts	2,826	3,156	5,748	6,295
Other service income	3,472	3,447	7,644	6,251
Checkcard fee income	4,382	4,040	8,384	7,801
Bank owned life insurance income	1,031	1,114	2,040	2,217
ATM fees	510	561	1,034	1,103
OREO valuation adjustments	(114)	(272)	(321)	(345)
(Loss) gain on sale of OREO, net	(147)	53	4,174	153
Net loss on sale of investment securities	—	—	(2,271)	—
Unrealized gain on equity securities	304	—	3,793	—
Other components of net periodic pension benefit income	1,705	1,448	3,410	2,896
Miscellaneous	2,607	1,127	3,449	1,744
Total other income	23,242	20,699	50,145	39,654

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Other expense:				
Salaries	$24,103	$ 23,001	$49,423	$ 45,718
Employee benefits	7,630	6,206	14,659	12,674
Occupancy expense	2,570	2,565	5,506	5,200
Furniture and equipment expense	4,013	3,640	8,162	7,258
Data processing fees	1,902	1,676	3,675	3,641
Professional fees and services	6,123	6,018	12,313	10,847
Marketing	1,185	1,084	2,403	2,140
Insurance	1,196	1,517	2,624	3,087
Communication	1,189	1,155	2,439	2,488
State tax expense	958	943	2,063	2,006
Miscellaneous	1,665	1,749	3,575	3,405
Total other expense	52,534	49,554	106,842	98,464
Income before income taxes	34,064	26,342	71,249	54,463
Federal income taxes	5,823	7,310	11,885	15,164
Net income	$28,241	$ 19,032	$59,364	$ 39,299
Earnings per Common Share:				
Basic	$1.85	$ 1.24	$3.88	$ 2.57
Diluted	$1.83	$ 1.24	$3.85	$ 2.55
Weighted average common shares outstanding				
Basic	15,285,531	15,297,085	15,286,931	15,304,572
Diluted	15,417,607	15,398,865	15,424,585	15,415,765
Cash dividends declared	$1.21	$ 0.94	$2.15	$ 1.88

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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PARK NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Condensed Statements of Comprehensive Income (Unaudited)
(in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$28,241	$19,032	$59,364	$39,299
Other comprehensive (loss) income, net of tax:				
Net loss realized on sale of securities, net of income tax benefit of $538 for the six months ended June 30, 2018	—	—	2,024	—
Unrealized net holding (loss) gain on debt securities available-for-sale, net of federal income tax effect of $(630) and $1,621 for the three months ended June 30, 2018 and 2017, and $(6,853) and $2,171 for the six months ended June 30, 2018 and 2017, respectively	(2,368)	3,011	(25,778)	4,033
Other comprehensive (loss) income	$(2,368)	$3,011	$(23,754)	$4,033
Comprehensive income	$25,873	$22,043	$35,610	$43,332

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

	Preferred Shares	Common Shares	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive (Loss) Income
Balance at January 1, 2017	$ —	$305,826	$535,631	$(81,472)	$ (17,745)
Net income			39,299		
Other comprehensive income, net of tax					4,033
Dividends on common shares at $1.88 per share			(28,939)		
Cash payment for fractional common shares in dividend reinvestment plan		(2)			
Issuance of 9,674 common shares under share-based compensation awards, net of 3,293 common shares withheld to pay employee income taxes		(795)	(197)	$645	
Repurchase of 50,000 common shares to be held as treasury shares				$(5,425)	
Share-based compensation expense		1,389			
Balance at June 30, 2017	$ —	$306,418	$545,794	$(86,252)	$ (13,712)
Balance at January 1, 2018, as previously presented	$ —	$307,726	$561,908	$(87,079)	$ (26,454)
Cumulative effect of change in accounting principle for marketable equity securities, net of tax			1,917		(995)
Balance at January 1, 2018, as adjusted	—	307,726	563,825	(87,079)	(27,449)
Reclassification of disproportionate income tax effects			3,806		(3,806)
Net income			59,364		
Other comprehensive loss, net of tax					(23,754)
Dividends on common shares at $2.15 per share			(33,166)		
Cash payment for fractional common shares in dividend reinvestment plan		(2)			
Issuance of 18,800 common shares under share-based compensation awards, net of 5,879 common shares withheld to pay employee income taxes		(1,597)	(317)	1,304	
Repurchase of 50,000 common shares to be held as treasury shares				(5,784)	
Share-based compensation expense		2,017			
Balance at June 30, 2018	$ —	$308,144	$593,512	$(91,559)	$ (55,009)

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

	Six Months Ended June 30, 2018	2017
Operating activities:		
Net income	$59,364	$39,299
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,646	5,457
Amortization of loan fees and costs, net	(3,055)	(2,821)
Increase in prepaid dealer premiums	(1,079)	(3,734)
Provision for depreciation	4,294	4,284
Amortization of investment securities, net	656	597
Realized net investment securities losses	2,271	—
Unrealized gain on equity securities	(3,793)	—
Amortization of prepayment penalty on long-term debt	—	3,107
Loan originations to be sold in secondary market	(96,290)	(106,685)
Proceeds from sale of loans in secondary market	94,550	107,046
Gain on sale of loans in secondary market	(2,266)	(2,063)
Share-based compensation expense	2,017	1,389
OREO valuation adjustments	321	345
Gain on sale of OREO, net	(4,174)	(153)
Bank owned life insurance income	(2,040)	(2,217)
Investment in qualified affordable housing tax credits amortization	3,702	3,728
Changes in assets and liabilities:		
Decrease (increase) in other assets	2,667	(3,179)
Increase (decrease) in other liabilities	1,731	(4,394)
Net cash provided by operating activities	$60,522	$40,006
Investing activities:		
Proceeds from sales of securities	$244,398	$—
Proceeds from calls and maturities of:		
Available-for-sale debt securities	97,008	83,308
Held-to-maturity debt securities	9,885	9,371
Purchases of:		
Available-for-sale debt securities	(373,372)	(14,965)
Held-to-maturity debt securities	(4,946)	(72,258)
Equity securities	(2,590)	—
Net loan paydowns (originations), portfolio loans	53,162	(94,207)
Proceeds from the sale of OREO	11,461	1,688
Life insurance death benefits	1,379	74
Purchases of premises and equipment, net	(3,950)	(2,474)
Net cash provided by (used in) investing activities	$32,435	$(89,463)

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

	Six Months Ended June 30,	
	2018	2017
Financing activities:		
Net increase in deposits	$198,518	$439,620
Net decrease in short-term borrowings	(175,150)	(211,007)
Proceeds from issuance of long-term debt	25,000	150,000
Repayment of subordinated notes	—	(30,000)
Repayment of long-term debt	(125,000)	—
Value of common shares withheld to pay employee income taxes	(610)	(347)
Repurchase of common shares to be held as treasury shares	(5,784)	(5,425)
Cash dividends paid	(32,884)	(28,751)
Net cash (used in) provided by financing activities	$(115,910)	$314,090
(Decrease) increase in cash and cash equivalents	(22,953)	264,633
Cash and cash equivalents at beginning of year	169,112	146,446
Cash and cash equivalents at end of period	$146,159	$411,079
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$18,766	$20,258
Income taxes	$2,500	$11,220
Non-cash items:		
Loans transferred to OREO	$861	$2,891
New commitments in affordable housing tax credit investments	$—	$7,000

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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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 and six-month periods ended June 30, 2018 are not necessarily indicative of the operating results to be anticipated for the fiscal year ending December 31, 2018.

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, 2017 from Park's 2017 Annual Report to Shareholders ("Park's 2017 Annual Report"). Prior period financial statement reflect the retrospective application of Accounting Standards Update ("ASU") 2017-07 - Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This change in classification had no effect on reported net income.

Park's significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in Park's 2017 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 - Adoption of New Accounting Pronouncements and Issued But Not Yet Effective Accounting Standards

The following is a summary of new accounting pronouncements impacting Park's consolidated financial statements, and issued but not yet effective accounting standards:

Adoption of New Accounting Pronouncements

ASU 2014-09 - Revenue from Contracts with Customers (Topic 606): In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This 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. The majority of the Company's revenues come from interest income and other sources, including loans, leases, securities and derivatives, that are outside the scope of ASC 606. Certain services that fall within the scope of ASC 606 are presented within Other Income and are recognized as revenue as the Company satisfies its obligation to the customer. Services within the scope of ASC 606 include income from fiduciary activities, service charges on deposit accounts, other service income, checkcard fee income, ATM fees, and gain on sale of OREO, net. The adoption of this guidance on January 1, 2018 did not have a material impact on Park's consolidated financial statements. However, the adoption of this standard resulted in additional disclosures beginning with the first quarter 2018 Form 10-Q. Reference Note 19, Revenue from Contracts with Customers, for further discussion on the Company's accounting policies for revenue sources within the scope of ASC 606.

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 reflected in the current U.S. GAAP model primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, this ASU clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale ("AFS") securities. The new guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2017. The adoption of this guidance on January 1, 2018 resulted in an $1.9 million increase to beginning retained earnings and a $995,000 increase to beginning accumulated other comprehensive loss. Additional income of $3.2 million and $1.3 million was recorded in the first and second quarters of 2018, respectively, as a result of changes to the accounting for equity investments. Further, beginning with the first quarter of 2018, Park's fair value disclosures in Note 14, Fair Value, have incorporated the revised disclosure requirements for financial investments.

ASU 2016-15 - Statement of Cash Flows (Topic 203): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force): In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 203): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). This ASU provides guidance on eight specific cash flow issues where then current GAAP was either unclear or did not include specific guidance. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2017. The adoption of this guidance on January 1, 2018 did not have an impact on Park's consolidated financial statements. As such transactions arise, management will utilize the updated guidance in providing disclosures within Park’s consolidated condensed statements of cash flows.

ASU 2017-07 - Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost: In March 2017, the FASB issued ASU 2017-07 - Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This ASU requires that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2017. As a result of the adoption of this guidance on January 1, 2018, all prior periods have been recast to separately record the service cost component and other components of net benefit cost. For all periods presented, this resulted in an increase in other income and an offsetting increase in other expense with no change to net income. See Note 12, Benefit Plans, for further details.

ASU 2017-09 - Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting: In May 2017, the FASB issued ASU 2017-09 - Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU amends the guidance concerning which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting under Topic 718. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2017. The adoption of this guidance on January 1, 2018 did not impact Park's consolidated financial statements.

ASU 2017-12 - Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities: In August 2017, the FASB issued ASU 2017-12 - Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU amends the current guidance with the objective of improving the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition, this ASU amends the current guidance to simplify the application of the hedge accounting guidance. 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 for interim or annual periods. The early adoption of this guidance on July 1, 2018 did not have an impact on Park's consolidated financial statements. Park will apply this guidance to future transactions.

ASU 2018-02 - Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income: In February 2018, the FASB issued ASU 2018-02 - Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This ASU allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects, resulting from the newly - enacted federal corporate income tax rate. The amount of the reclassification is the difference between the historical federal corporate income tax rate and the newly-enacted 21% federal corporate income tax rate. The guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted for interim or annual periods. The early adoption of this guidance effective January 1, 2018 resulted in a $3.8 million increase to Park's accumulated other comprehensive loss and a $3.8 million increase to retained earnings.

ASU 2018-03 - Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. In February 2018, the FASB issued ASU 2018-03 - Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10): Recognition and

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Measurement of Financial Assets and Financial Liabilities. This ASU includes amendments that clarify certain aspects of the guidance issued in ASU 2016-01. Park considered this clarification in determining the appropriate adoption of ASU 2016-01 effective as of January 1, 2018.

Issued But Not Yet Effective Accounting Standards

ASU 2016-02 - Leases (Topic 842): In February 2016, the FASB issued ASU 2016-02 - Leases (Topic 842). This 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 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 analyzing data on leased assets. The adoption of this guidance is expected to increase both assets and liabilities, but is not expected to have a material impact on Park's consolidated statement of income.

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. 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 CECL model requires an entity to estimate credit losses over the life of an asset or off-balance sheet exposure. 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. We anticipate that the adoption of the CECL model will result in a material increase to Park's allowance for loan losses. Management has established a committee to oversee the implementation of the CECL model and is currently in the process of implementing a software solution to assist in implementing the adoption of this ASU. Management plans to run our current allowance model and a CECL model concurrently for 12 months prior to the adoption of this guidance on January 1, 2020.

ASU 2017-08 - Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities: In March 2017, the FASB issued ASU 2017-08 - Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. This ASU amends the amortization period for certain purchased callable debt securities held at a premium. It shortens the amortization period for the premium to the earliest call date. Under current U.S. GAAP, premiums on callable debt securities generally are amortized to the maturity date. 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 for interim or annual periods. The adoption of this guidance is not expected to have a material impact on Park's consolidated financial statements.

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Note 3 – Loans

The composition of the loan portfolio, by class of loan, as of June 30, 2018 and December 31, 2017 was as follows:

	June 30, 2018			December 31, 2017		
(In thousands)	Loan Balance	Accrued Interest Receivable	Recorded Investment	Loan Balance	Accrued Interest Receivable	Recorded Investment
Commercial, financial and agricultural *	$1,014,623	$ 4,766	$1,019,389	$1,053,453	$ 4,413	$1,057,866
Commercial real estate *	1,150,845	4,241	1,155,086	1,167,607	4,283	1,171,890
Construction real estate:						
Commercial	136,058	423	136,481	125,389	401	125,790
Mortgage	52,895	127	53,022	52,203	133	52,336
Installment	2,965	9	2,974	3,878	13	3,891
Residential real estate:						
Commercial	390,651	1,069	391,720	393,094	1,029	394,123
Mortgage	1,094,657	1,358	1,096,015	1,110,426	1,516	1,111,942
HELOC	188,663	921	189,584	203,178	974	204,152
Installment	16,601	47	16,648	18,526	53	18,579
Consumer	1,274,349	3,597	1,277,946	1,241,736	3,808	1,245,544
Leases	2,667	23	2,690	2,993	36	3,029
Total loans	$5,324,974	$ 16,581	$5,341,555	$5,372,483	$ 16,659	$5,389,142

* Included within each of 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 $12.3 million at June 30, 2018 and $12.2 million at December 31, 2017, which represented a net deferred income position in both periods.

Overdrawn deposit accounts of $1.0 million and $1.9 million had been reclassified to loans at June 30, 2018 and December 31, 2017, respectively, and are included in the commercial, financial and agricultural loan class above.

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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, 2018 and December 31, 2017:

	June 30, 2018			
(In thousands)	Nonaccrual Loans	Accruing TDRs	Loans Past Due 90 Days or More and Accruing	Total Nonperforming Loans
Commercial, financial and agricultural	$29,847	$187	$6	$30,040
Commercial real estate	23,313	3,215	—	26,528
Construction real estate:				
Commercial	2,187	342	—	2,529
Mortgage	—	16	—	16
Installment	42	15	—	57
Residential real estate:				
Commercial	2,531	219	—	2,750
Mortgage	17,508	9,644	399	27,551
HELOC	1,772	1,230	60	3,062
Installment	464	808	103	1,375
Consumer	3,460	724	910	5,094
Total loans	$81,124	$16,400	$1,478	$99,002

	December 31, 2017			
(In thousands)	Nonaccrual Loans	Accruing TDRs	Loans Past Due 90 Days or More and Accruing	Total Nonperforming Loans
Commercial, financial and agricultural	$16,773	$1,291	$—	$18,064
Commercial real estate	12,979	5,163	—	18,142
Construction real estate:				
Commercial	986	338	—	1,324
Mortgage	8	92	—	100
Installment	52	—	—	52
Residential real estate:				
Commercial	18,835	224	—	19,059
Mortgage	16,841	10,766	568	28,175
HELOC	1,593	1,025	14	2,632
Installment	586	616	7	1,209
Consumer	3,403	662	1,256	5,321
Total loans	$72,056	$20,177	$1,845	$94,078

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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, 2018 and December 31, 2017.

(In thousands)	June 30, 2018			December 31, 2017		
	Nonaccrual and Accruing TDRs	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment	Nonaccrual and Accruing TDRs	Loans Individually Evaluated for Impairment	Loans Collectively Evaluated for Impairment
Commercial, financial and agricultural	$30,034	$ 29,943	$ 91	$18,064	$ 18,039	$ 25
Commercial real estate	26,528	26,528	—	18,142	18,142	—
Construction real estate:						
Commercial	2,529	2,529	—	1,324	1,324	—
Mortgage	16	—	16	100	—	100
Installment	57	—	57	52	—	52
Residential real estate:						
Commercial	2,750	2,750	—	19,059	19,059	—
Mortgage	27,152	—	27,152	27,607	—	27,607
HELOC	3,002	—	3,002	2,618	—	2,618
Installment	1,272	—	1,272	1,202	—	1,202
Consumer	4,184	—	4,184	4,065	—	4,065
Total loans	$97,524	$ 61,750	$ 35,774	$92,233	$ 56,564	$ 35,669

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, 2018 and December 31, 2017.

(In thousands)	June 30, 2018			December 31, 2017		
	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	$29,897	$ 26,740	$ —	$19,899	$ 14,704	$ —
Commercial real estate	25,145	24,469	—	18,974	18,060	—
Construction real estate:						
Commercial	5,342	2,529	—	2,788	1,324	—
Residential real estate:						
Commercial	3,080	2,717	—	19,346	19,012	—
With an allowance recorded:						
Commercial, financial and agricultural	5,256	3,203	1,366	5,394	3,335	681
Commercial real estate	2,238	2,059	27	137	82	2
Construction real estate:						
Commercial	—	—	—	—	—	—
Residential real estate:						
Commercial	33	33	3	47	47	1

Consumer	—	—	—	—	—	—
Total	$70,991	$ 61,750	$ 1,396	$66,585	$ 56,564	$ 684

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, 2018 and December 31, 2017, there were $9.2 million and $7.9 million, respectively, of partial charge-offs on loans individually evaluated for impairment with no related allowance recorded. At June 30, 2018 and December 31, 2017, there were $2.2 million and $2.1 million, respectively, of partial charge-offs on loans individually evaluated for impairment that also had a specific reserve allocated.

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The allowance for loan losses included specific reserves related to loans individually evaluated for impairment at June 30, 2018 and December 31, 2017 of $1.4 million and $0.7 million, respectively. These loans with specific reserves had a recorded investment of $5.3 million and $3.5 million as of June 30, 2018 and December 31, 2017, respectively.

Interest income on nonaccrual loans individually evaluated for impairment is recognized on a cash basis only when Park expects to receive the entire recorded investment of the loan. Interest income on accruing TDRs individually evaluated for impairment continues to be recorded on an accrual basis. 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 and six months ended June 30, 2018 and June 30, 2017:

	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017		
(In thousands)	Recorded Investment as of June 30, 2018	Average Recorded Investment	Interest Income Recognized	Recorded Investment as of June 30, 2017	Average Recorded Investment	Interest Income Recognized
Commercial, financial and agricultural	$29,943	$ 27,637	$ 145	$28,475	$ 23,320	$ 120
Commercial real estate	26,528	20,711	201	21,790	21,768	240
Construction real estate:						
Commercial	2,529	1,510	13	1,636	1,843	16
Residential real estate:						
Commercial	2,750	2,653	27	21,235	20,732	61
Consumer	—	—	—	8	9	—
Total	$61,750	$ 52,511	$ 386	$73,144	$ 67,672	$ 437

	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
(In thousands)	Recorded Investment as of June 30, 2018	Average Recorded Investment	Interest Income Recognized	Recorded Investment as of June 30, 2017	Average Recorded Investment	Interest Income Recognized
Commercial, financial and agricultural	$29,943	$ 23,402	$ 319	$28,475	$ 21,789	$ 340
Commercial real estate	26,528	19,519	403	21,790	22,504	471
Construction real estate:						
Commercial	2,529	1,451	27	1,636	1,960	31
Residential real estate:						
Commercial	2,750	7,511	58	21,235	21,220	406
Consumer	—	—	—	8	6	—
Total	$61,750	$ 51,883	$ 807	$73,144	$ 67,479	$ 1,248

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The following tables present the aging of the recorded investment in past due loans as of June 30, 2018 and December 31, 2017 by class of loan.

	June 30, 2018				
(In thousands)	Accruing Loans Past Due 30-89 Days	Past Due Nonaccrual Loans and Loans Past Due 90 Days or More and Accruing (1)	Total Past Due	Total Current (2)	Total Recorded Investment
Commercial, financial and agricultural	$3,556	$ 12,913	$ 16,469	$ 1,002,920	$ 1,019,389
Commercial real estate	156	2,104	2,260	1,152,826	1,155,086
Construction real estate:					
Commercial	41	1,821	1,862	134,619	136,481
Mortgage	506	—	506	52,516	53,022
Installment	39	17	56	2,918	2,974
Residential real estate:					
Commercial	—	1,112	1,112	390,608	391,720
Mortgage	12,214	8,169	20,383	1,075,632	1,096,015
HELOC	500	768	1,268	188,316	189,584
Installment	190	322	512	16,136	16,648
Consumer	9,527	1,932	11,459	1,266,487	1,277,946
Leases	—	—	—	2,690	2,690
Total loans	$26,729	$ 29,158	$ 55,887	$ 5,285,668	$ 5,341,555

(1) Includes $1.5 million of loans past due 90 days or more and accruing. The remaining loans were past due nonaccrual loans.
(2) Includes $53.4 million of nonaccrual loans which were current in regards to contractual principal and interest payments.

	December 31, 2017				
(in thousands)	Accruing Loans Past Due 30-89 Days	Past Due Nonaccrual Loans and Loans Past Due 90 Days or More and Accruing (1)	Total Past Due	Total Current (2)	Total Recorded Investment
Commercial, financial and agricultural	$145	$ 1,043	$ 1,188	$ 1,056,678	$ 1,057,866
Commercial real estate	856	2,360	3,216	1,168,674	1,171,890
Construction real estate:					
Commercial	29	—	29	125,761	125,790
Mortgage	256	—	256	52,080	52,336
Installment	54	19	73	3,818	3,891
Residential real estate:					
Commercial	16	1,586	1,602	392,521	394,123
Mortgage	11,515	9,232	20,747	1,091,195	1,111,942
HELOC	616	876	1,492	202,660	204,152
Installment	239	253	492	18,087	18,579
Consumer	11,515	2,407	13,922	1,231,622	1,245,544
Leases	—	—	—	3,029	3,029

Total loans	$25,241	$ 17,776	$ 43,017	$ 5,346,125	$ 5,389,142

(1) Includes $1.8 million of loans past due 90 days or more and accruing. The remaining loans were past due nonaccrual loans.
(2) Includes $56.1 million of nonaccrual loans which were current in regards to contractual principal and interest payments.

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Credit Quality Indicators

Management utilizes past due information as a credit quality indicator across the loan portfolio. Past due information as of June 30, 2018 and December 31, 2017 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 a 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, 2018 and December 31, 2017 for all commercial loans:

	June 30, 2018				
(In thousands)	5 Rated	6 Rated	Nonaccrual and Accruing TDRs	Pass-Rated	Recorded Investment
Commercial, financial and agricultural *	$1,195	$ 57	$ 30,034	$988,103	$1,019,389
Commercial real estate *	3,060	—	26,528	1,125,498	1,155,086
Construction real estate:					
Commercial	21	—	2,529	133,931	136,481
Residential real estate:					
Commercial	317	46	2,750	388,607	391,720
Leases	—	—	—	2,690	2,690
Total commercial loans	$4,593	$ 103	$ 61,841	$2,638,829	$2,705,366

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

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	December 31, 2017				
(In thousands)	5 Rated	6 Rated	Nonaccrual and Accruing TDRs	Pass-Rated	Recorded Investment
Commercial, financial and agricultural *	$17,272	$ 153	$ 18,064	$1,022,377	$1,057,866
Commercial real estate *	5,322	457	18,142	1,147,969	1,171,890
Construction real estate:					
Commercial	278	—	1,324	124,188	125,790
Residential real estate:					
Commercial	216	1	19,059	374,847	394,123
Leases	—	—	—	3,029	3,029
Total Commercial Loans	$23,088	$ 611	$ 56,589	$2,672,410	$2,752,698

* Included within each of 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 periods ended June 30, 2018 and June 30, 2017 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.

Quarterly, 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 did 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 if the borrower has complied with the terms of the loan at the date of the renewal/modification and there was a reasonable expectation that the borrower would continue to comply with the terms of the loan subsequent to the date of the renewal/modification. The majority of these TDRs were originally considered restructurings in a prior year as a result of a renewal/modification with an interest rate that was not commensurate with the risk of the underlying loan at the time of the renewal/modification. The TDR classification was removed on $1.9 million of loans during the three-month period ended June 30, 2018 and $2.2 million of loans during the six-month period ended June 30, 2018. There were no TDR classifications removed during the three-month or six-month periods ended June 30, 2017.

At June 30, 2018 and December 31, 2017, there were $23.9 million and $38.5 million, respectively, of TDRs included in the nonaccrual loan totals. At June 30, 2018 and December 31, 2017, $18.1 million and $32.4 million, respectively, of these nonaccrual TDRs were performing in accordance with the terms of the restructured note. As of June 30, 2018 and December 31, 2017, loans with a recorded investment of $16.4 million and $20.2 million, respectively, were included in accruing TDR loan totals. Management will continue to review the restructured loans and may determine it is appropriate to move certain nonaccrual TDRs to accrual status in the future.

At June 30, 2018 and December 31, 2017, Park had commitments to lend $0.6 million and $1.3 million, respectively, of additional funds to borrowers whose outstanding loan terms had been modified in a TDR.

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At both June 30, 2018 and December 31, 2017, there were $0.5 million of specific reserves related to TDRs. Modifications made in 2017 and 2018 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. There were no additional specific reserves recorded during the three-month period ended June 30, 2018 as a result of TDRs identified in the period. Additional specific reserves of $10,000 were recorded during the three-month period ended June 30, 2017 as a result of TDRs identified in the period. Additional specific reserves of $10,000 and $290,000 were recorded during the six-month periods ended June 30, 2018 and June 30, 2017, respectively, as a result of TDRs identified in the respective periods.

The terms of certain other loans were modified during the three-month and six-month periods ended June 30, 2018 and June 30, 2017 that did not meet the definition of a TDR. Substandard commercial loans modified during the three-month and six-month periods ended June 30, 2018 which did not meet the definition of a TDR had a total recorded investment of $0.1 million and $0.2 million, respectively. There were no substandard commercial loans modified during the three-month period ended June 30, 2017 which did not meet the definition of a TDR. Substandard commercial loans with a recorded investment of $0.1 million were modified during the six-month period ended June 30, 2017 which did not meet the definition of a TDR. The renewal/modification of these loans: (1) resulted in a delay in a payment that was considered to be insignificant, or (2) resulted in Park obtaining additional collateral or guarantees that improved the likelihood of the ultimate collection of the loans such that each modification was deemed to be at market terms. Consumer loans modified during the three-month and six-month periods ended June 30, 2018 which did not meet the definition of a TDR had a total recorded investment of $4.7 million and $11.0 million, respectively. Consumer loans with a recorded investment of $3.4 million and $5.0 million were modified during the three-month and six-month periods ended June 30, 2017 and did not meet the definition of a TDR. Many of these loans were to borrowers who were not experiencing financial difficulties but who were looking to reduce their cost of funds.

The following tables detail the number of contracts modified as TDRs during the three-month periods ended June 30, 2018 and June 30, 2017, as well as the recorded investment of these contracts at June 30, 2018 and June 30, 2017. The recorded investment pre- and post-modification is generally the same due to the fact that Park does not typically forgive principal.

	Three Months Ended June 30, 2018			
(In thousands)	Number of Contracts	Accruing	Nonaccrual	Total Recorded Investment
Commercial, financial and agricultural	4	$ 123	$ 26	$ 149
Commercial real estate	3	455	134	589
Construction real estate:				
Commercial	—	—	—	—
Mortgage	—	—	—	—
Installment	2	14	—	14
Residential real estate:				
Commercial	—	—	—	—
Mortgage	4	93	224	317
HELOC	6	409	43	452
Installment	4	71	4	75

Consumer	85	58	720	778
Total loans	108	$ 1,223	$ 1,151	$ 2,374

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(In thousands)	Three Months Ended June 30, 2017 Number of Contracts	Accruing	Nonaccrual	Total Recorded Investment
Commercial, financial and agricultural	3	$ —	$ 164	$ 164
Commercial real estate	2	802	—	802
Construction real estate:				
Commercial	—	—	—	—
Mortgage	1	—	8	8
Installment	—	—	—	—
Residential real estate:				
Commercial	4	—	282	282
Mortgage	10	438	506	944
HELOC	9	160	48	208
Installment	2	40	—	40
Consumer	72	37	551	588
Total loans	103	$ 1,477	$ 1,559	$ 3,036

Of those loans which were modified and determined to be a TDR during the three-month period ended June 30, 2018, $5,000 were on nonaccrual status as of December 31, 2017. Of those loans which were modified and determined to be a TDR during the three-month period ended June 30, 2017, $175,000 were on nonaccrual status as of December 31, 2016.

(In thousands)	Six Months Ended June 30, 2018 Number of Contracts	Accruing	Nonaccrual	Total Recorded Investment
Commercial, financial and agricultural	8	$ 123	$ 70	$ 193
Commercial real estate	6	455	265	720
Construction real estate:				
Commercial	1	—	—	—
Mortgage	—	—	—	—
Installment	2	14	—	14
Residential real estate:				
Commercial	—	—	—	—
Mortgage	13	93	868	961
HELOC	8	661	130	791
Installment	9	104	17	121
Consumer	135	61	906	967
Total loans	182	$ 1,511	$ 2,256	$ 3,767

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(In thousands)	Six Months Ended June 30, 2017 Number of Contracts	Accruing	Nonaccrual	Total Recorded Investment
Commercial, financial and agricultural	11	$ —	$ 3,052	$ 3,052
Commercial real estate	6	803	380	1,183
Construction real estate:				
Commercial	—	—	—	—
Mortgage	1	—	8	8
Installment	—	—	—	—
Residential real estate:				
Commercial	5	—	282	282
Mortgage	19	438	1,110	1,548
HELOC	12	359	47	406
Installment	3	73	—	73
Consumer	129	52	965	1,017
Total loans	186	$ 1,725	$ 5,844	$ 7,569

Of those loans which were modified and determined to be a TDR during the six-month period ended June 30, 2018, $0.4 million were on nonaccrual status as of December 31, 2017. Of those loans which were modified and determined to be a TDR during the six-month period ended June 30, 2017, $2.8 million were on nonaccrual status as of December 31, 2016.

The following table presents 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, 2018 and June 30, 2017, respectively. For this table, a loan is considered to be in default when it becomes 30 days contractually past due under the modified terms. The additional allowance for loan loss resulting from the defaults on TDR loans was immaterial.

(In thousands)	Three Months Ended June 30, 2018 Number of Contracts	Recorded Investment	Three Months Ended June 30, 2017 Number of Contracts	Recorded Investment
Commercial, financial and agricultural	3	$ 144	4	$ 109
Commercial real estate	—	—	4	657
Construction real estate:				
Commercial	—	—	—	—
Mortgage	—	—	—	—
Installment	—	—	—	—
Residential real estate:				
Commercial	—	—	1	29
Mortgage	6	600	10	724
HELOC	1	88	2	10
Installment	—	—	1	2
Consumer	42	403	48	579
Leases	—	—	—	—
Total loans	52	$ 1,235	70	$ 2,110

Of the $1.2 million in modified TDRs which defaulted during the three-month period ended June 30, 2018, $21,000 were accruing loans and $1.2 million were nonaccrual loans. Of the $2.1 million in modified TDRs which defaulted during the three-month period ended June 30, 2017, $13,000 were accruing loans and $2.1 million were nonaccrual loans.

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(In thousands)	Six Months Ended June 30, 2018 Number of Contracts	Six Months Ended June 30, 2018 Recorded Investment	Six Months Ended June 30, 2017 Number of Contracts	Six Months Ended June 30, 2017 Recorded Investment
Commercial, financial and agricultural	3	$ 144	4	$ 109
Commercial real estate	—	—	5	834
Construction real estate:				
Commercial	—	—	—	—
Mortgage	—	—	—	—
Installment	—	—	—	—
Residential real estate:				
Commercial	—	—	1	29
Mortgage	7	703	10	724
HELOC	1	88	2	10
Installment	—	—	1	2
Consumer	47	445	56	618
Leases	—	—	—	—
Total loans	58	$ 1,380	79	$ 2,326

Of the $1.4 million in modified TDRs which defaulted during the six-month period ended June 30, 2018, $21,000 were accruing loans and $1.4 million were nonaccrual loans. Of the $2.3 million in modified TDRs which defaulted during the six-month period ended June 30, 2017, $13,000 were accruing loans and $2.3 million were nonaccrual loans.

Note 4 – Allowance for Loan Losses

The allowance for loan losses ("ALLL") 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 2017 Annual Report.

Loss factors are reviewed quarterly and updated at least annually to reflect recent loan loss history and incorporate current risk and trends which may not be recognized in historical data. The following are factors management reviews on a quarterly or annual basis.

- Historical Loss Factor: Management updated the historical loss calculation during the fourth quarter of 2017, incorporating net charge-offs plus changes in specific reserves through December 31, 2017. With the addition of 2017 historical losses, management extended the historical loss period to 96 months from 84 months. The 96-month historical loss period captures all annual periods subsequent to June 2009, the end of the most recent recession, thus encompassing the full economic cycle to date.

- Loss Emergence Period Factor: At least annually, management calculates the loss emergence period for each commercial loan segment. This loss emergence period is calculated based upon the average period of time it takes from the probable occurrence of a loss event to the credit being moved to nonaccrual. If the loss emergence period for any commercial loan segment is greater than one year, management applies additional general reserves to all performing loans within that segment of the commercial loan portfolio. The loss emergence period was last updated in the fourth quarter of 2017.

- Loss Migration Factor: Park’s commercial loans are individually risk graded. If loan downgrades occur, the probability of default increases, and accordingly, management allocates a higher percentage reserve to those accruing commercial loans graded special mention and substandard. Annually, management calculates a loss migration factor for each commercial loan segment for special mention and substandard credits based on a review of losses over the period of time a loan takes to migrate from pass-rated to impaired. The loss migration factor was last updated in the fourth quarter of 2017.

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• Environmental Loss Factor: Management has identified certain macroeconomic factors that trend in accordance with losses in Park's commercial loan portfolio. These macroeconomic factors are reviewed quarterly and the adjustments made to the environmental loss factor impacting each segment in the performing commercial loan portfolio correlate to changes in the macroeconomic environment. There was no change to the environmental loss factor during the second quarter of 2018.

The activity in the allowance for loan losses for the three-month and six-month periods ended June 30, 2018 and June 30, 2017 is summarized in the following tables.

(In thousands)	Three Months Ended June 30, 2018						
	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							
Beginning balance	$14,077	$ 9,488	$ 4,463	$ 9,415	$ 11,526	$ —	$48,969
Charge-offs	287	182	31	102	2,114	—	2,716
Recoveries	206	89	220	244	1,054	—	1,813
Net charge-offs/(recoveries)	81	93	(189)	(142)	1,060	—	903
Provision/(recovery)	482	11	—	(312)	1,205	—	1,386
Ending balance	$14,478	$ 9,406	$ 4,652	$ 9,245	$ 11,671	$ —	$49,452

(In thousands)	Three Months Ended June 30, 2017						
	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							
Beginning balance	$13,437	$ 10,281	$ 4,368	$ 10,745	$ 11,091	$ —	$49,922
Charge-offs	318	310	—	290	2,128	—	3,046
Recoveries	163	241	325	336	1,300	—	2,365
Net charge-offs/(recoveries)	155	69	(325)	(46)	828	—	681
Provision/(recovery)	3,464	239	(16)	(472)	1,366	—	4,581
Ending balance	$16,746	$ 10,451	$ 4,677	$ 10,319	$ 11,629	$ —	$53,822

(In thousands)	Six Months Ended June 30, 2018						
	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							
Beginning balance	$15,022	$ 9,601	$ 4,430	$ 9,321	$ 11,614	$ —	$49,988
Charge-offs	936	229	31	218	4,752	—	6,166
Recoveries	858	176	279	604	2,067	—	3,984
Net charge-offs/(recoveries)	78	53	(248)	(386)	2,685	—	2,182
(Recovery)/provision	(466)	(142)	(26)	(462)	2,742	—	1,646
Ending balance	$14,478	$ 9,406	$ 4,652	$ 9,245	$ 11,671	$ —	$49,452

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(In thousands)	Six Months Ended June 30, 2017 Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							
Beginning balance	$13,434	$ 10,432	$ 5,247	$ 10,958	$ 10,553	$ —	$50,624
Charge-offs	657	422	27	770	4,878	—	6,754
Recoveries	532	355	383	627	2,598	—	4,495
Net charge-offs/(recoveries)	125	67	(356)	143	2,280	—	2,259
Provision/(recovery)	3,437	86	(926)	(496)	3,356	—	5,457
Ending balance	$16,746	$ 10,451	$ 4,677	$ 10,319	$ 11,629	$ —	$53,822

Loans collectively evaluated for impairment in the following tables include all performing loans at June 30, 2018 and December 31, 2017, 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, 2018 and December 31, 2017, 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 2017 Annual Report).

The composition of the allowance for loan losses at June 30, 2018 and December 31, 2017 was as follows:

(In thousands)	June 30, 2018 Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							
Ending allowance balance attributed to loans:							
Individually evaluated for impairment	$1,366	$27	$—	$3	$—	$—	$1,396
Collectively evaluated for impairment	13,112	9,379	4,652	9,242	11,671	—	48,056
Total ending allowance balance	$14,478	$9,406	$4,652	$9,245	$11,671	$—	$49,452
Loan balance:							
Loans individually evaluated for impairment	$29,942	$26,485	$2,529	$2,749	$—	$—	$61,705
Loans collectively evaluated for impairment	984,681	1,124,360	189,389	1,687,823	1,274,349	2,667	5,263,269
	$1,014,623	$1,150,845	$191,918	$1,690,572	$1,274,349	$2,667	$5,324,974

Total ending loan balance							
Allowance for loan losses as a percentage of loan balance:							
Loans individually evaluated for impairment	4.56 %	0.10 %	— %	0.11 %	— %	— %	2.26 %
Loans collectively evaluated for impairment	1.33 %	0.83 %	2.46 %	0.55 %	0.92 %	— %	0.91 %
Total	1.43 %	0.82 %	2.42 %	0.55 %	0.92 %	— %	0.93 %
Recorded investment:							
Loans individually evaluated for impairment	$29,943	$26,528	$2,529	$2,750	$—	$—	$61,750
Loans collectively evaluated for impairment	989,446	1,128,558	189,948	1,691,217	1,277,946	2,690	5,279,805
Total ending recorded investment	$1,019,389	$1,155,086	$192,477	$1,693,967	$1,277,946	$2,690	$5,341,555

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(In thousands)	December 31, 2017 Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							
Ending allowance balance attributed to loans:							
Individually evaluated for impairment	$681	$2	$—	$1	$—	$—	$684
Collectively evaluated for impairment	14,341	9,599	4,430	9,320	11,614	—	49,304
Total ending allowance balance	$15,022	$9,601	$4,430	$9,321	$11,614	$—	$49,988
Loan balance:							
Loans individually evaluated for impairment	$18,034	$18,131	$1,322	$19,058	$—	$—	$56,545
Loans collectively evaluated for impairment	1,035,419	1,149,476	180,148	1,706,166	1,241,736	2,993	5,315,938
Total ending loan balance	$1,053,453	$1,167,607	$181,470	$1,725,224	$1,241,736	$2,993	$5,372,483
Allowance for loan losses as a percentage of loan balance:							
Loans individually evaluated for impairment	3.78 %	0.01 %	— %	0.01 %	— %	— %	1.21 %
Loans collectively evaluated for impairment	1.39 %	0.84 %	2.46 %	0.55 %	0.94 %	— %	0.93 %
Total	1.43 %	0.82 %	2.44 %	0.54 %	0.94 %	— %	0.93 %
Recorded investment:							
Loans individually evaluated for impairment	$18,039	$18,142	$1,324	$19,059	$—	$—	$56,564
Loans collectively evaluated for impairment	1,039,827	1,153,748	180,693	1,709,737	1,245,544	3,029	5,332,578
	$1,057,866	$1,171,890	$182,017	$1,728,796	$1,245,544	$3,029	$5,389,142

Total ending
recorded
investment

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 amounts of foreclosed properties held at June 30, 2018 and December 31, 2017 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, 2018	December 31, 2017
OREO:		
Commercial real estate	$ 2,295	$ 7,888
Construction real estate	2,425	4,852
Residential real estate	1,009	1,450
Total OREO	$ 5,729	$ 14,190
Loans in process of foreclosure:		
Residential real estate	$ 2,633	$ 2,948

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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, 2018 and 2017.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except share and per common share data)	2018	2017	2018	2017
Numerator:				
Net income	$28,241	$ 19,032	$59,364	$ 39,299
Denominator:				
Weighted-average common shares outstanding	15,285,532	15,297,085	15,286,932	15,304,572
Effect of dilutive performance-based restricted stock units	132,075	101,780	137,653	111,193
Weighted-average common shares outstanding adjusted for the effect of dilutive performance-based restricted stock units	15,417,607	15,398,865	15,424,585	15,415,765
Earnings per common share:				
Basic earnings per common share	$1.85	$ 1.24	$3.88	$ 2.57
Diluted earnings per common share	$1.83	$ 1.24	$3.85	$ 2.55

Park awarded 48,053 and 45,788 PBRSUs to certain employees during the six months ended June 30, 2018 and 2017, respectively. No PBRSUs were awarded during either of the three months ended June 30, 2018 and 2017. As of June 30, 2018, 138,994 PBRSUs were outstanding. The PBRSUs vest based on service and performance conditions. The dilutive effect of the outstanding PBRSUs was the addition of 132,075 and 101,780 common shares for the three months ended June 30, 2018 and 2017, respectively, and 137,653 and 111,193 common shares for the six months ended June 30, 2018 and 2017, respectively.

Park repurchased 50,000 common shares during the three and six months ended June 30, 2018 to fund the PBRSUs and common shares to be awarded to directors of Park and to directors of Park's subsidiary PNB (and its divisions). Park repurchased 50,000 common shares during the six months ended June 30, 2017 to fund the PBRSUs and common shares to be awarded to directors of Park and to directors of Park's subsidiary PNB (and its divisions). Park did not repurchase any common shares during three months ended June 30, 2017.

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.

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(In thousands)	Operating Results for the three months ended June 30, 2018				
	PNB	GFSC	SEPH	All Other	Total
Net interest income	$62,683	$1,261	$616	$182	$64,742
Provision for (recovery of) loan losses	1,623	87	(324)	—	1,386
Other income	22,070	42	71	1,059	23,242
Other expense	48,169	842	857	2,666	52,534
Income (loss) before income taxes	$34,961	$374	$154	$(1,425)	$34,064
Federal income tax expense (benefit)	6,164	79	32	(452)	5,823
Net income (loss)	$28,797	$295	$122	$(973)	$28,241
Assets (as of June 30, 2018)	$7,404,498	$29,232	$7,786	$20,640	$7,462,156

(In thousands)	Operating Results for the three months ended June 30, 2017				
	PNB	GFSC	SEPH	All Other	Total
Net interest income	$57,822	$1,491	$282	$183	$59,778
Provision for (recovery of) loan losses	4,574	373	(366)	—	4,581
Other income	20,582	8	8	101	20,699
Other expense	45,280	841	1,267	2,166	49,554
Income (loss) before income taxes	$28,550	$285	$(611)	$(1,882)	$26,342
Federal income tax expense (benefit)	8,387	99	(213)	(963)	7,310
Net income (loss)	$20,163	$186	$(398)	$(919)	$19,032
Assets (as of June 30, 2017)	$7,754,898	$33,860	$24,595	$18,739	$7,832,092

(In thousands)	Operating Results for the six months ended June 30, 2018				
	PNB	GFSC	SEPH	All Other	Total
Net interest income	$124,124	$2,566	$2,493	$409	$129,592
Provision for (recovery of) loan losses	1,556	590	(500)	—	1,646
Other income	41,985	72	3,658	4,430	50,145
Other expense	97,170	1,602	2,882	5,188	106,842
Income (loss) before income taxes	$67,383	$446	$3,769	$(349)	$71,249
Federal income tax expense (benefit)	11,841	94	791	(841)	11,885
Net income	$55,542	$352	$2,978	$492	$59,364

(In thousands)	Operating Results for the six months ended June 30, 2017				
	PNB	GFSC	SEPH	All Other	Total
Net interest income	$115,302	$2,969	$483	$(24)	$118,730
Provision for (recovery of) loan losses	5,294	810	(647)	—	5,457
Other income (loss)	39,696	24	37	(103)	39,654
Other expense	90,486	1,593	2,072	4,313	98,464
Income (loss) before income taxes	$59,218	$590	$(905)	$(4,440)	$54,463
Federal income tax expense (benefit)	17,569	206	(316)	(2,295)	15,164
Net income (loss)	$41,649	$384	$(589)	$(2,145)	$39,299

The operating results of the Parent Company in the “All Other” column are used to reconcile the segment totals to the consolidated condensed statements of income for the three-month and six-month periods ended June 30, 2018 and 2017. The reconciling amounts for consolidated total assets for the periods ended June 30, 2018 and 2017 consisted of the elimination of intersegment borrowings and the assets of the Parent Company which were not eliminated.

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Note 8 – Loans Held For Sale

Mortgage loans held for sale are carried at their fair value. At June 30, 2018 and December 31, 2017, respectively, Park had approximately $8.2 million and $4.1 million in mortgage loans held for sale. These amounts are included in loans on the consolidated condensed balance sheets and in the residential real estate loan segments in Note 3, Loans, and Note 4, Allowance for Loan Losses. The contractual balance was $8.0 million and $4.1 million at June 30, 2018 and December 31, 2017, respectively. The gain expected upon sale was $108,000 and $55,000 at June 30, 2018 and December 31, 2017, respectively. None of these loans were 90 days or more past due or on nonaccrual status as of June 30, 2018 or December 31, 2017.

Note 9 – Investment Securities

The amortized cost and fair value of investment securities are shown in the following tables. Management performs a quarterly evaluation of investment securities for any other-than-temporary impairment. For the three-month and six-month periods ended June 30, 2018 and 2017, there were no investment securities deemed to be other-than-temporarily impaired.

Investment securities at June 30, 2018, were as follows:

Debt Securities Available-for-Sale (In thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
U.S. Government sponsored entities' asset-backed securities	1,127,511	476	36,309	1,091,678
Total	$1,127,511	$ 476	$ 36,309	$1,091,678

Debt Securities Held-to-Maturity (In thousands)	Amortized Cost	Gross Unrecognized Holding Gains	Gross Unrecognized Holding Losses	Estimated Fair Value
U.S. Government sponsored entities' asset-backed securities	$47,192	$ 95	$ 1,236	$46,051
Obligations of states and political subdivisions	304,239	2,225	$ 4,323	302,141
Total	$351,431	$ 2,320	$ 5,559	$348,192

Investment securities with unrealized/unrecognized losses at June 30, 2018, were as follows:

	Unrealized/unrecognized loss position for less than 12 months		Unrealized/unrecognized loss position for 12 months or longer		Total	
(In thousands)	Fair value	Unrealized/unrecognized losses	Fair value	Unrealized/unrecognized losses	Fair value	Unrealized/unrecognized losses
Debt Securities Available-for-Sale						
U.S. Government sponsored entities' asset-backed securities	775,132	19,613	$279,486	16,696	$1,054,618	36,309
Total	$775,132	$ 19,613	$279,486	$ 16,696	$1,054,618	$ 36,309
Debt Securities Held-to-Maturity						
U.S. Government sponsored entities' asset-backed securities	$40,016	$ 1,236	$—	$ —	$40,016	$ 1,236

Obligations of states and political subdivisions	129,738	$ 2,237	58,541	2,086	$188,279	4,323
Total	$ 169,754	$ 3,473	$ 58,541	$ 2,086	$228,295	$ 5,559

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Investment securities at December 31, 2017, were as follows:

Debt Securities Available-for-Sale (In thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value