

PARK NATIONAL CORP /OH/
Form 8-K
April 22, 2016

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) April 22, 2016

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

Ohio 1-13006 31-1179518
(State or other jurisdiction (Commission (IRS Employer
of incorporation) File Number) Identification No.)

50 North Third Street, P.O. Box 3500, Newark, Ohio 43058-3500
(Address of principal executive offices) (Zip Code)

(740) 349-8451
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 - Results of Operations and Financial Condition.

On April 22, 2016, Park National Corporation (“Park”) issued a news release (the “Financial Results News Release”) announcing financial results for the three months ended March 31, 2016. A copy of the Financial Results News Release is included as Exhibit 99.1 to this Current Report on Form 8-K and incorporated by reference herein.

Park's management uses certain non-GAAP (generally accepted accounting principles) financial measures to evaluate Park's performance. Specifically, management reviews return on average tangible equity, return on average tangible assets, tangible equity to tangible assets and tangible book value per share. Management has included in the Financial Results News Release information relating to the annualized return on average tangible equity, annualized return on average tangible assets, tangible equity to tangible assets and tangible book value per share for the three months ended March 31, 2016, December 31, 2015 and March 31, 2015. For purposes of calculating the annualized return on average tangible equity, a non-GAAP financial measure, net income for each period is divided by average tangible equity during the period. Average tangible equity equals average shareholders' equity during the applicable period less average goodwill during the applicable period. For the purpose of calculating the annualized return on average tangible assets, a non-GAAP financial measure, net income for each period is divided by average tangible assets during the period. Average tangible assets equals average assets during the applicable period less average goodwill during the applicable period. For the purpose of calculating tangible equity to tangible assets, a non-GAAP financial measure, tangible equity is divided by tangible assets. Tangible equity equals shareholders' equity less goodwill, in each case at period end. Tangible assets equals total assets less goodwill, in each case at period end. For the purpose of calculating tangible book value per share, a non-GAAP financial measure, tangible equity is divided by shares outstanding at period end. Management believes that the disclosure of return on average tangible equity, return on average tangible assets, tangible equity to tangible assets and tangible book value per share presents additional information to the reader of the consolidated financial statements, which, when read in conjunction with the consolidated financial statements prepared in accordance with GAAP, assists in analyzing Park's operating performance, ensures comparability of operating performance from period to period, and facilitates comparisons with the performance of Park's peer financial holding companies and bank holding companies, while eliminating certain non-operational effects of acquisitions. In the Financial Results News Release, Park has provided a reconciliation of average tangible equity to average shareholders' equity, average tangible assets to average assets, tangible equity to shareholders' equity and tangible assets to total assets solely for the purpose of complying with SEC Regulation G and not as an indication that return on average tangible equity, return on average tangible assets, tangible equity to tangible assets and tangible book value per share are substitutes for return on average equity, return on average assets, shareholders' equity to total assets and book value per share, respectively, as determined by GAAP.

Item 7.01 - Regulation FD Disclosure

Financial Results by segment

The table below reflects the net income (loss) by segment for the first quarters of 2016 and 2015, and for the fiscal years ended December 31, 2015 and 2014. Park's segments include The Park National Bank ("PNB"), Guardian Financial Services Company ("GFSC"), SE Property Holdings, LLC ("SEPH") and all other which primarily consists of Park as the "Parent Company."

Net income (loss) by segment

(In thousands)	Q1 2016	Q1 2015	2015	2014
PNB	\$21,744	\$19,159	\$84,345	\$82,907
GFSC	(1,836)	281	1,423	1,175
Parent Company	(1,834)	(694)	(4,549)	(5,050)
Ongoing operations	\$18,074	\$18,746	\$81,219	\$79,032
SEPH	612	298	(207)	4,925
Total Park	\$18,686	\$19,044	\$81,012	\$83,957

The category "Parent Company" above excludes the results for SEPH, an entity which is winding down commensurate with the disposition of its problem assets. Management considers the "Ongoing operations" results, which exclude the results of SEPH, to be reflective of the business of Park and its subsidiaries on a going forward basis. The discussion below provides some additional information regarding the segments that make up the "Ongoing operations", followed by additional information regarding SEPH.

The Park National Bank (PNB)

The table below reflects PNB's net income for the first quarters of 2016 and 2015, and for the fiscal years ended December 31, 2015 and 2014.

(In thousands)	Q1 2016	Q1 2015	2015	2014
Net interest income	\$57,155	\$53,821	\$220,879	\$218,641
Provision for loan losses	1,533	2,022	7,665	3,517
Other income	17,223	18,012	75,188	69,384
Other expense	41,360	41,932	167,476	163,641
Income before income taxes	\$31,485	\$27,879	\$120,926	\$120,867
Federal income taxes	9,741	8,720	36,581	37,960
Net income	\$21,744	\$19,159	\$84,345	\$82,907

Net interest income of \$57.2 million for the three months ended March 31, 2016 represented a \$3.3 million, or 6.2%, increase, compared to \$53.8 million for the three months ended March 31, 2015. The increase was due to a \$241 million, or 5.1%, increase in average loans from \$4.8 billion at March 31, 2015 to \$5.0 billion at March 31, 2016, along with a 5 basis point increase in the yield on loans from 4.56% to 4.61%. Included in interest income for the three months ended March 31, 2016 is \$561,000 in income related to PNB participations in legacy Vision Bank ("Vision") assets.

The provision for loan losses of \$1.5 million for the three months ended March 31, 2016 represented a decrease of \$489,000, compared to \$2.0 million for the same period in 2015. Refer to the "Credit Metrics and Provision for (Recovery of) Loan Losses" section for additional details regarding the level of the provision for loan losses recognized in each period presented above.

Other income of \$17.2 million for the three months ended March 31, 2016 represented a \$789,000, or 4.4%, decrease, compared to \$18.0 million for the same period in 2015. The \$789,000 decrease was primarily due to income of

\$791,000 related to proceeds from the death benefits paid from a bank owned life insurance policy in 2015 and a decrease of \$774,000 in gain on sale of OREO, net and other OREO income. These items were offset by a \$272,000 increase in other service income primarily related to mortgage loan originations, a \$258,000 increase in miscellaneous income and a \$201,000 increase in income from fiduciary activities.

Other expense of \$41.4 million for the three months ended March 31, 2016 represented a decrease of \$572,000, or 1.4%, compared to \$41.9 million for the same period in 2015. The \$572,000 decrease was primarily related to a decrease of \$1.1 million related to employee benefits expense and a reduction in expenses as \$1.1 million was recognized in the first quarter of 2015 related to a prepayment penalty on borrowings and a contract termination fee, offset by a \$461,000 increase in salary expense, a \$587,000 increase in furniture and equipment expense, and an \$823,000 increase in professional fees and services.

PNB results for the three months ended March 31, 2016 and 2015 and for the fiscal year ended December 31, 2015 included income and expense related to participations in legacy Vision assets. The impact of these participations on particular items within PNB's income and expense is detailed in the table below:

(In thousands)	1Q 2016			1Q 2015			2015		
	PNB as reported	Adjustments	PNB as adjusted ⁽¹⁾	PNB as reported	Adjustments	PNB as adjusted ⁽¹⁾	PNB as reported	Adjustments	PNB as adjusted ⁽¹⁾
Net interest income	\$57,155	\$ 561	\$56,594	\$53,821	\$ 60	\$53,761	\$220,879	\$ 241	\$220,638
Provision for (recovery of) loan losses	1,533	(5)	1,538	2,022	(541)	2,563	7,665	(1,453)	9,118
Other income	17,223	(202)	17,425	18,012	406	17,606	75,188	1,225	73,963
Other expense	41,360	221	41,139	41,932	235	41,697	167,476	700	166,776
Income before income taxes	\$31,485	\$ 143	\$31,342	\$27,879	\$ 772	\$27,107	\$120,926	\$ 2,219	\$118,707
Federal income tax expense	9,741	44	9,697	8,720	241	8,479	36,581	671	35,910
Net income	\$21,744	\$ 99	\$21,645	\$19,159	\$ 531	\$18,628	\$84,345	\$ 1,548	\$82,797

(1) Adjustments consist of the impact on the particular items reported in PNB's income statement of PNB participations in legacy Vision assets.

The impact of Vision Bank participations includes: interest income, net recoveries from loans previously charged off, net gains on the sale of OREO, other OREO income, gains on the sale of loans and other expenses.

The table below provides certain balance sheet information and financial ratios for PNB as of March 31, 2016, December 31, 2015 and March 31, 2015.

(In thousands)	March 31, 2016	December 31, 2015	March 31, 2015	% change	
				from 12/31/15	from 03/31/15
Loans	\$5,023,659	\$5,029,072	\$4,786,901	(0.11)%	4.95%
Allowance for loan losses	54,646	54,453	53,141	0.35%	2.83%
Net loans	4,969,013	4,974,619	4,733,760	(0.11)%	4.97%
Investment securities	1,599,598	1,641,539	1,454,895	(2.55)%	9.95%
Total assets	7,347,378	7,229,764	7,212,490	1.63%	1.87%
Average assets ⁽¹⁾	7,325,133	7,219,898	7,118,563	1.46%	2.90%
Efficiency ratio	55.28	%56.42	%58.24	%(2.02)	%(5.08)
Return on average assets ⁽²⁾	1.19	%1.17	%1.09	%1.71	%9.17

(1) Average assets for the three months ended March 31, 2016 and 2015, and for the fiscal year ended December 31, 2015.

(2) Annualized for the three months ended March 31, 2016 and 2015.

PNB's allowance for loan losses increased by \$193,000, or 0.35%, to \$54.6 million at March 31, 2016, compared to \$54.5 million at December 31, 2015. Net charge-offs were \$1.3 million, or an annualized 0.11% of total average

loans, for the three months ended March 31, 2016. Refer to the “Credit Metrics and Provision for (Recovery of) Loan Losses” section for additional information regarding PNB's loan portfolio and the level of provision for loan losses recognized in each period presented.

Guardian Financial Services Company (GFSC)

The table below reflects GFSC's net income (loss) for the first quarters of 2016 and 2015, and for the fiscal years ended December 31, 2015 and 2014.

(In thousands)	Q1 2016	Q1 2015	2015	2014
Net interest income	\$1,504	\$1,692	\$6,588	\$7,457
Provision for loan losses	527	495	1,415	1,544
Other income (loss)	—	2	2	(1)
Other expense	3,798	779	2,984	4,103
Income (loss) before income taxes	\$(2,821)	\$420	\$2,191	\$1,809
Federal income taxes (benefit)	(985)	139	768	634
Net income (loss)	\$(1,836)	\$281	\$1,423	\$1,175

The increase in other expense during the first quarter of 2016 compared to the same period in 2015 primarily relates to an accrual for ongoing legal proceedings.

The table below provides certain balance sheet information and financial ratios for GFSC as of March 31, 2016, December 31, 2015 and March 31, 2015.

(In thousands)	March 31, 2016	December 31, 2015	March 31, 2015	% change from 12/31/15	% change from 03/31/15
Loans	\$33,798	\$35,469	\$38,901	(4.71)%	(13.12)%
Allowance for loan losses	2,302	2,041	2,267	12.79 %	1.54 %
Net loans	31,496	33,428	36,634	(5.78)%	(14.03)%
Total assets	34,637	35,793	38,569	(3.23)%	(10.19)%
Average assets ⁽¹⁾	35,372	37,675	39,661	(6.11)%	(10.81)%
Return on average assets ⁽²⁾	N.M.	3.78	%2.87	% N.M.	N.M.

(1) Average assets for the three months ended March 31, 2016 and 2015, and for the fiscal year ended December 31, 2015.

(2) Annualized for the three months ended March 31, 2016 and 2015.

Park Parent Company

The table below reflects the Park Parent Company net loss for the first quarters of 2016 and 2015, and for the fiscal years ended December 31, 2015 and 2014.

(In thousands)	Q1 2016	Q1 2015	2015	2014
Net interest (expense) income	\$(1)	\$110	\$239	\$(2,012)
Provision for loan losses	—	—	—	—
Other income	132	99	513	175
Other expense	3,337	1,911	9,972	8,000
Loss before income tax benefit	\$(3,206)	\$(1,702)	\$(9,220)	\$(9,837)
Federal income tax benefit	(1,372)	(1,008)	(4,671)	(4,787)
Net loss	\$(1,834)	\$(694)	\$(4,549)	\$(5,050)

The net interest (expense) income for Park's parent company included, for all periods presented, interest income on loans to SEPH and on subordinated debt investments in PNB, which were eliminated in the consolidated Park National Corporation totals. Additionally, net interest (expense) income included, for all periods presented, interest

expense related to the \$30.00 million of 7% Subordinated Notes due April 20, 2022 issued by Park to accredited investors on April 20, 2012. Results for the fiscal year ended December 31, 2014 included, in addition to the items previously discussed, interest expense related to the \$35.25 million of 10% Subordinated Notes due December 23, 2019 issued by Park to accredited investors on December 23, 2009. Park paid off the \$35.25 million outstanding principal amount of the 10% Subordinated Notes due December 23, 2019, plus accrued interest, on December 24, 2014, the earliest redemption date allowable under the related note purchase agreement dated December 23, 2009.

Other expense of \$3.3 million for the three months ended March 31, 2016 represented an increase of \$1.4 million or 74.6%, compared to \$1.9 million for the three months ended March 31, 2015. The \$1.4 million increase was primarily related to an increase of \$0.6 million in professional fees and services, an increase of \$0.5 million in miscellaneous other expense and an increase of \$237,000 in employee benefit expense.

SEPH

The table below reflects SEPH's net income (loss) for the first quarters of 2016 and 2015, and for the fiscal years ended December 31, 2015 and 2014. SEPH holds the remaining assets and liabilities retained by Vision subsequent to the sale of the Vision business on February 16, 2012. Prior to holding the remaining Vision assets, SEPH held OREO assets that were transferred from Vision to SEPH. This segment represents a run-off portfolio of the legacy Vision assets.

(In thousands)	Q1 2016	Q1 2015	2015	2014
Net interest income (expense)	\$1,161	\$(88)	\$(74)	\$958
Recovery of loan losses	(1,150)	(885)	(4,090)	(12,394)
Other income	34	760	1,848	5,991
Other expense	1,404	1,098	6,182	11,766
Income (loss) before income taxes	\$941	\$459	\$(318)	\$7,577
Federal income tax expense (benefit)	329	161	(111)	2,652
Net income (loss)	\$612	\$298	\$(207)	\$4,925

SEPH's financial results for the three months ended March 31, 2016 included net recoveries of \$1.2 million. The net recoveries during 2016 consisted solely of recoveries from loans previously charged off. The \$726,000 decrease in other income for the three months ended March 31, 2016 compared to the same period of 2015 was primarily due to a \$722,000 gain on the sale of loans in the first quarter of 2015. The \$306,000 increase in other expense for the three months ended March 31, 2016 compared to the same period of 2015 was primarily the result of increases in: legal fees of \$418,000; management and consulting fees of \$145,000; and other OREO expense of \$39,000, offset by a \$202,000 decrease in expense related to reserves established for potential mortgage loan repurchases.

Legacy Vision assets at SEPH totaled \$25.9 million as of March 31, 2016. In addition to these SEPH assets, PNB participations in legacy Vision assets totaled \$9.8 million at March 31, 2016.

Park National Corporation

The table below reflects Park's consolidated net income for the first quarters of 2016 and 2015, and for the fiscal years ended December 31, 2015 and 2014.

(In thousands)	Q1 2016	Q1 2015	2015	2014
Net interest income	\$59,819	\$55,535	\$227,632	\$225,044
Provision for (recovery of) loan losses	910	1,632	4,990	(7,333)
Other income	17,389	18,873	77,551	75,549
Other expense	49,899	45,720	186,614	187,510
Income before income taxes	\$26,399	\$27,056	\$113,579	