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

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

FORM 10-Q

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

For the quarterly period ended June 30, 2016

Commission File Number 1-13006

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ý No ¨

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

Yes ý No ¨

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

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

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

Yes ¨ No ý

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

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, 2016	December 31, 2015
Assets:		
Cash and due from banks	$119,873	$119,412
Money market instruments	196,016	30,047
Cash and cash equivalents	315,889	149,459
Investment securities:		
Securities available-for-sale, at fair value (amortized cost of $1,281,357 and $1,436,714 at June 30, 2016 and December 31, 2015, respectively)	1,305,574	1,436,266
Securities held-to-maturity, at amortized cost (fair value of $191,557 and $151,428 at June 30, 2016 and December 31, 2015, respectively)	184,121	149,302
Other investment securities	58,311	58,311
Total investment securities	1,548,006	1,643,879
Loans	5,127,644	5,068,085
Allowance for loan losses	(58,699)	(56,494)
Net loans	5,068,945	5,011,591
Bank owned life insurance	183,143	181,684
Prepaid assets	85,962	80,635
Goodwill	72,334	72,334
Premises and equipment, net	58,962	59,493
Affordable housing tax credit investments	47,576	51,247
Other real estate owned	17,566	18,651
Accrued interest receivable	17,497	18,675
Mortgage loan servicing rights	8,880	9,008
Other	6,850	14,698
Total assets	$7,431,610	$7,311,354
Liabilities and Shareholders' Equity:		
Deposits:		
Noninterest bearing	$1,378,053	$1,404,032
Interest bearing	4,245,826	3,943,610
Total deposits	5,623,879	5,347,642
Short-term borrowings	210,731	394,242
Long-term debt	741,174	738,105
Subordinated notes	45,000	45,000
Unfunded commitments in affordable housing tax credit investments	15,995	20,311
Accrued interest payable	2,336	2,338
Other	52,608	50,361
Total liabilities	$6,691,723	$6,597,999
Shareholders' equity:		
Preferred shares (200,000 shares authorized; 0 shares issued)	$—	$—
Common shares (No par value; 20,000,000 shares authorized; 16,150,835 shares issued at June 30, 2016 and 16,150,854 shares issued at December 31, 2015)	304,756	303,966

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

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

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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,	
	2016	2015	2016	2015
Other expense:				
Salaries	$21,256	$ 20,995	$42,810	$ 41,977
Employee benefits	4,894	4,729	9,667	10,414
Occupancy expense	2,639	2,381	5,187	4,960
Furniture and equipment expense	3,416	2,831	6,859	5,693
Data processing fees	1,373	1,197	2,590	2,464
Professional fees and services	5,401	5,583	12,068	10,277
Marketing	1,073	937	2,184	1,950
Insurance	1,438	1,362	2,849	2,823
Communication	1,353	1,233	2,574	2,564
State tax expense	798	883	1,724	1,930
Miscellaneous	1,665	2,536	6,693	5,335
Total other expense	45,306	44,667	95,205	90,387
Income before income taxes	28,278	29,427	54,677	56,483
Federal income taxes	8,280	8,388	15,993	16,400
Net income	$19,998	$ 21,039	$38,684	$ 40,083
Earnings per Common Share:				
Basic	$1.30	$ 1.37	$2.52	$ 2.61
Diluted	$1.30	$ 1.37	$2.51	$ 2.60
Weighted average common shares outstanding				
Basic	15,330,802	15,370,882	15,330,808	15,375,026
Diluted	15,399,283	15,407,881	15,402,896	15,411,920
Cash dividends declared	$0.94	$ 0.94	$1.88	$ 1.88

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

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

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

	Preferred Shares	Common Shares	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive (Loss) Income
Balance at January 1, 2015, as previously presented	$ — 305,499	$303,104	$486,541	$(77,439)	$ (13,608)
Cumulative effect of change in accounting principle for low income housing tax credits, net of tax			(2,057)		
Balance at January 1, 2015, as adjusted	$ —	$303,104	$484,484	$(77,439)	$ (13,608)
Net income			40,083		
Other comprehensive loss, net of tax					(372)
Dividends on common shares at $1.88 per share			(28,975)		
Cash payment for fractional shares in dividend reinvestment plan		(1)			
Share-based compensation expense		470			
Repurchase of treasury shares				(1,783)	
Balance at June 30, 2015	$ —	$303,573	$495,592	$(79,222)	$ (13,980)
Balance at January 1, 2016	$ —	$303,966	$507,505	$(82,473)	$ (15,643)
Net income			38,684		
Other comprehensive income, net of tax					16,032
Dividends on common shares at $1.88 per share			(28,974)		
Cash payment for fractional shares in dividend reinvestment plan		(2)			
Share-based compensation expense		792			
Balance at June 30, 2016	$ —	$304,756	$517,215	$(82,473)	$ 389

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

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

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

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

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with the instructions for Form 10-Q and, therefore, do not include all information and footnotes necessary for a fair presentation of the condensed balance sheets, condensed statements of income, condensed statements of comprehensive income, condensed statements of changes in shareholders’ equity and condensed statements of cash flows in conformity with United States ("U.S.") generally accepted accounting principles (“U.S. GAAP”). These financial statements should be read in conjunction with the consolidated financial statements incorporated by reference in the Annual Report on Form 10-K of Park for the fiscal year ended December 31, 2015 from Park’s 2015 Annual Report to Shareholders (“Park's 2015 Annual Report”). Certain prior period amounts have been reclassified to conform to the current period presentation.

Park’s significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in Park’s 2015 Annual Report. For interim reporting purposes, Park follows the same basic accounting policies, as updated by the information contained in this report, and considers each interim period an integral part of an annual period.

Note 2 – Recent Accounting Pronouncements

ASU 2014-09 - Revenue from Contracts with Customers (Topic 606): In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU creates a new topic, Topic 606, to provide guidance on revenue recognition for entities that enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additional disclosures are required to provide quantitative and qualitative information regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance is effective for annual reporting periods, and interim reporting periods within those annual periods, beginning after December 15, 2017. Management is currently evaluating the impact of the adoption of this guidance on Park's consolidated financial statements.
ASU 2015-02 - Consolidation (Topic 810): Amendments to the Consolidation Analysis: In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The ASU amends the current consolidation guidance and affects both the variable interest entity and voting interest entity consolidation models. The new guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2015. The adoption of this guidance on January 1, 2016 did not have an impact on Park’s consolidated financial statements.
ASU 2016-01 - Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. In January 2016, the FASB issued ASU 2016-01 - Financial Instruments - Overall (Subtopic

825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. Changes to the current U.S. GAAP model primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the ASU clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale securities. The new guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2017. Management is currently evaluating the impact of the adoption of this guidance on Park's consolidated financial statements.
ASU 2016-02 - Leases (Topic 842): In February 2016, the FASB issued ASU 2016-02 - Leases (Topic 842). The ASU will require all organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Additional qualitative and quantitative disclosures will be required so that users can

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

ASU 2016-09 - Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting: In March 2016, FASB issued ASU 2016-09 - Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The ASU provides simplification for several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted. Management is currently evaluating the impact of the adoption of this guidance on Park's consolidated financial statements.

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

Note 3 – Loans

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

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

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

Loans are shown net of deferred origination fees, costs and unearned income of $10.5 million at June 30, 2016 and $10.4 million at December 31, 2015, which represented a net deferred income position in both periods.

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

Credit Quality

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

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

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

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

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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, 2016 and December 31, 2015.

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

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

The following table presents loans individually evaluated for impairment by class of loan, together with the related allowance recorded, as of June 30, 2016 and December 31, 2015.

(In thousands)	June 30, 2016 Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	December 31, 2015 Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded:						
Commercial, financial and agricultural	$31,097	$ 16,996	$ —	$32,583	$ 18,763	$ —
Commercial real estate	28,658	28,363	—	15,138	14,916	—
Construction real estate:						
SEPH commercial land and development	6,768	1,700	—	10,834	2,044	—
Remaining commercial	1,714	1,698	—	2,506	1,531	—
Residential real estate:						
Commercial	24,297	23,617	—	23,798	23,480	—
With an allowance recorded:						
Commercial, financial and agricultural	16,917	12,783	4,295	16,155	11,832	1,904

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

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Management's general practice is to proactively charge down loans individually evaluated for impairment to the fair value of the underlying collateral. At June 30, 2016 and December 31, 2015, there were $20.2 million and $24.2 million, respectively, of partial charge-offs on loans individually evaluated for impairment with no related allowance recorded and $4.2 million and $4.5 million, respectively, of partial charge-offs on loans individually evaluated for impairment that also had a specific reserve allocated.

The allowance for loan losses included specific reserves of $6.3 million and $4.2 million related to loans individually evaluated for impairment at June 30, 2016 and December 31, 2015, respectively. These loans with specific reserves had a recorded investment of $18.5 million and $19.9 million as of June 30, 2016 and December 31, 2015, respectively.

Interest income on loans individually evaluated for impairment is recognized on a cash basis only when Park expects to receive the entire recorded investment of the loan. The following table presents the average recorded investment and interest income recognized subsequent to impairment on loans individually evaluated for impairment as of and for the three months and six months ended June 30, 2016 and June 30, 2015:

(In thousands)	Three Months Ended June 30, 2016 Recorded Investment as of June 30, 2016	Average Recorded Investment	Interest Income Recognized	Three Months Ended June 30, 2015 Recorded Investment as of June 30, 2015	Average Recorded Investment	Interest Income Recognized
Commercial, financial and agricultural	$29,779	$ 28,600	$ 308	$20,429	$ 18,220	$ 140
Commercial real estate	29,889	22,177	185	17,647	16,850	123
Construction real estate:						
SEPH commercial land and development	1,700	1,957	—	2,047	2,068	—
Remaining commercial	4,386	4,438	15	6,032	5,611	6
Residential real estate:						
Commercial	25,070	24,648	340	24,441	24,443	273
Consumer	20	5	—	—	—	—
Total	$90,844	$ 81,825	$ 848	$70,596	$ 67,192	$ 542

(In thousands)	Six Months Ended June 30, 2016 Recorded investment as of June 30, 2016	Average recorded investment	Interest income recognized	Six Months Ended June 30, 2015 Recorded investment as of June 30, 2015	Average recorded investment	Interest income recognized
Commercial, financial and agricultural	$29,779	$ 29,319	$ 546	$20,429	$ 18,830	$ 271
Commercial real estate	29,889	19,863	365	17,647	18,058	286
Construction real estate:						
SEPH commercial land and development	1,700	1,994	—	2,047	2,072	8
Remaining commercial	4,386	4,570	28	6,032	5,644	11
Residential real estate:						
Commercial	25,070	24,795	2,305	24,441	24,864	528
Consumer	20	3	—	—	—	—
Total	$90,844	$ 80,544	$ 3,244	$70,596	$ 69,468	$ 1,104

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

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

(1) Includes $2.4 million of loans past due 90 days or more and accruing. The remaining are past due nonaccrual loans.
(2) Includes $75.2 million of nonaccrual loans which are current in regards to contractual principal and interest payments.

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

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

(1) Includes $2.0 million of loans past due 90 days or more and accruing. The remaining are past due nonaccrual loans.
(2) Includes $55.5 million of nonaccrual loans which are current in regards to contractual principal and interest payments.

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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, 2016 and December 31, 2015 is included in the tables above. The past due information is the primary credit quality indicator within the following classes of loans: (1) mortgage loans and installment loans in the construction real estate segment; (2) mortgage loans, HELOC and installment loans in the residential real estate segment; and (3) consumer loans. The primary credit indicator for commercial loans is based on an internal grading system that grades commercial loans on a scale from 1 to 8. Credit grades are continuously monitored by the responsible loan officer and adjustments are made when appropriate. A grade of 1 indicates little or no credit risk and a grade of 8 is considered a loss. Commercial loans that are pass-rated (graded an 1 through a 4) are considered to be of acceptable credit risk. Commercial loans graded a 5 (special mention) are considered to be watch list credits and a higher loan loss reserve percentage is allocated to these loans. Loans classified as special mention have potential weaknesses that require management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of Park's credit position at some future date. Commercial loans graded 6 (substandard), also considered to be watch list credits, are considered to represent higher credit risk and, as a result, a higher loan loss reserve percentage is allocated to these loans. Loans classified as substandard are inadequately protected by the current sound worth and paying capacity of the obligor or the value of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that Park will sustain some loss if the deficiencies are not corrected. Commercial loans that are graded a 7 (doubtful) are shown as nonaccrual and Park generally charges these loans down to their fair value by taking a partial charge-off or recording a specific reserve. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Certain 6-rated loans and all 7-rated loans are placed on nonaccrual status and included within the impaired category. A loan is deemed impaired when management determines the borrower's ability to perform in accordance with the contractual loan agreement is in doubt. Any commercial loan graded an 8 (loss) is completely charged off.

The tables below present the recorded investment by loan grade at June 30, 2016 and December 31, 2015 for all commercial loans:

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

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

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

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

Troubled Debt Restructurings ("TDRs")

Management classifies loans as TDRs when a borrower is experiencing financial difficulties and Park has granted a concession to the borrower as part of a modification or in the loan renewal process. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of the borrower's debt in the foreseeable future without the modification. This evaluation is performed in accordance with the Company’s internal underwriting policy. Management’s policy is to modify loans by extending the term or by granting a temporary or permanent contractual interest rate below the market rate, not by forgiving debt. A court's discharge of a borrower's debt in a Chapter 7 bankruptcy is considered a concession when the borrower does not reaffirm the discharged debt. Certain loans which were modified during the three-month and six-month periods ended June 30, 2016 and June 30, 2015 did not meet the definition of a TDR as the modification was a delay in a payment that was considered to be insignificant. Management considers a forbearance period of up to three months or a delay in payment of up to 30 days to be insignificant. TDRs may be classified as accruing if the borrower has been current for a period of at least six months with respect to loan payments and management expects that the borrower will be able to continue to make payments in accordance with the terms of the restructured note. Management reviews all accruing TDRs quarterly to ensure payments continue to be made in accordance with the modified terms.

Management reviews renewals/modifications of loans previously identified as TDRs to consider if it is appropriate to remove the TDR classification. If the borrower is no longer experiencing financial difficulty and the renewal/modification does not contain a concessionary interest rate or other concessionary terms, management considers the potential removal of the TDR classification. If deemed appropriate, the TDR classification is removed as the borrower has complied with the terms of the loan at the date of the renewal/modification and there was a reasonable expectation that the borrower would continue to comply with the terms of the loan subsequent to the date of the renewal/modification. The majority of these TDRs were originally considered restructurings in a prior year as a result of a renewal/modification with an interest rate that was not commensurate with the risk of the underlying loan at the time of the renewal/modification. During the three-month and six-month periods ended June 30, 2016, Park removed the TDR classification on $917,000 and $1.7 million, respectively, of loans that met the requirements discussed above. The TDR classification was not removed on any loans during the three-month and six-month periods ended June 30, 2015.

At June 30, 2016 and December 31, 2015, there were $49.6 million and $41.1 million, respectively, of TDRs included in the nonaccrual loan totals. At June 30, 2016 and December 31, 2015, $42.0 million and $19.1 million of these nonaccrual TDRs were performing in accordance with the terms of the restructured note. As of June 30, 2016 and December 31, 2015, there were $17.8 million and $25.1 million, respectively, of TDRs included in accruing loan totals. Management will continue to review the restructured loans and may determine it appropriate to move certain of the loans back to accrual status in the future.

At June 30, 2016 and December 31, 2015, Park had commitments to lend $2.5 million and $2.3 million, respectively, of additional funds to borrowers whose outstanding loan terms had been modified in a TDR.

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The specific reserve related to TDRs at June 30, 2016 and December 31, 2015 was $4.0 million and $2.3 million, respectively. Modifications made in 2015 and 2016 were largely the result of renewals and extending the maturity date of the loan at terms consistent with the original note. These modifications were deemed to be TDRs primarily due to Park's conclusion that the borrower would likely not have qualified for similar terms through another lender. Many of the modifications deemed to be TDRs were previously identified as impaired loans, and thus were also previously evaluated for impairment under Accounting Standards Codification (ASC) 310. Additional specific reserves of $950,000 and $975,000 were recorded during the three-month and six-month periods ended June 30, 2016, respectively, as a result of TDRs identified in 2016. Additional specific reserves of $104,000 and $961,000 were recorded during the three-month and six-month periods ended June 30, 2015, respectively, as a result of TDRs identified in 2015.

The terms of certain other loans were modified during the six-month periods ended June 30, 2016 and June 30, 2015 that did not meet the definition of a TDR. Modified substandard commercial loans which did not meet the definition of a TDR had a total recorded investment as of June 30, 2016 and June 30, 2015 of $33,000 and $112,000, respectively. The renewal/modification of these loans: (1) involved a renewal/modification of the terms of a loan to a borrower who was not experiencing financial difficulties, (2) resulted in a delay in a payment that was considered to be insignificant, or (3) resulted in Park obtaining additional collateral or guarantees that improved the likelihood of the ultimate collection of the loan such that the modification was deemed to be at market terms. Modified consumer loans which did not meet the definition of a TDR had a total recorded investment of $4.4 million and $10.4 million, as of June 30, 2016 and June 30, 2015, respectively. Many of these loans were to borrowers who were not experiencing financial difficulties but who were looking to reduce their cost of funds.

The following tables detail the number of contracts modified as TDRs during the three-month and six-month periods ended June 30, 2016 and June 30, 2015, as well as the recorded investment of these contracts at June 30, 2016 and June 30, 2015. The recorded investment pre- and post-modification is generally the same due to the fact that Park does not typically provide for forgiveness of principal.

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

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

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

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

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

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

The following tables present the recorded investment in financing receivables which were modified as TDRs within the previous 12 months and for which there was a payment default during the three-month and six-month periods ended June 30, 2016 and June 30, 2015, respectively. For these tables, a loan is considered to be in default when it becomes 30 days contractually past due under the modified terms. The additional allowance for loan loss resulting from the defaults on TDR loans was immaterial.

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

Leases	—	—		—	—	
Total loans	46	$	1,747	86	$	1,727

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

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

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

Note 4 – Allowance for Loan Losses

The allowance for loan losses is that amount management believes is adequate to absorb probable incurred credit losses in the loan portfolio based on management’s evaluation of various factors including overall growth in the loan portfolio, an analysis of individual loans, prior and current loss experience, and current economic conditions. A provision for loan losses is charged to operations based on management’s periodic evaluation of these and other pertinent factors as discussed within Note 1 of the Notes to Consolidated Financial Statements included in Park’s 2015 Annual Report.

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

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

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

	Three Months Ended June 30, 2016						
(In thousands)	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							