PARK NATIONAL CORP /OH/
Form 10-Q
May 02, 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 March 31, 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 (Do not check if a smaller reporting	¨	Smaller reporting company	¨
		Emerging growth company	¨

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: 15,301,101 Common shares, no par value per share, outstanding at May 1, 2018.

PARK NATIONAL CORPORATION

CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Condensed Balance Sheets as of March 31, 2018 and December 31, 2017 (unaudited)	3
Consolidated Condensed Statements of Income for the three months ended March 31, 2018 and 2017 (unaudited)	4
Consolidated Condensed Statements of Comprehensive Income for the three months ended March 31, 2018 and 2017 (unaudited)	6
Consolidated Condensed Statements of Changes in Shareholders' Equity for the three months ended March 31, 2018 and 2017 (unaudited)	7
Consolidated Condensed Statements of Cash Flows for the three months ended March 31, 2018 and 2017 (unaudited)	8
Notes to Unaudited Consolidated Condensed Financial Statements	10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	46
Item 3. Quantitative and Qualitative Disclosures About Market Risk	67
Item 4. Controls and Procedures	67
PART II. OTHER INFORMATION	68
Item 1. Legal Proceedings	68
Item 1A. Risk Factors	68
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	68
Item 3. Defaults Upon Senior Securities	69
Item 4. Mine Safety Disclosures	70
Item 5. Other Information	70
Item 6. Exhibits	70
SIGNATURES	72

Table of Contents

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

	March 31, 2018	December 31, 2017
Assets:		
Cash and due from banks	$110,163	$131,946
Money market instruments	166,418	37,166
Cash and cash equivalents	276,581	169,112
Investment securities:		
Debt securities available-for-sale, at fair value (amortized cost of $1,079,745 and $1,097,645 at March 31, 2018 and December 31, 2017, respectively)	1,046,910	1,091,881
Debt securities held-to-maturity, at amortized cost (fair value of $346,199 and $363,779 at March 31, 2018 and December 31, 2017, respectively)	347,622	357,197
Other investment securities	69,824	63,746
Total investment securities	1,464,356	1,512,824
Loans	5,292,349	5,372,483
Allowance for loan losses	(48,969)	(49,988)
Net loans	5,243,380	5,322,495
Bank owned life insurance	188,952	189,322
Prepaid assets	101,635	97,712
Goodwill	72,334	72,334
Premises and equipment, net	56,239	55,901
Affordable housing tax credit investments	47,818	49,669
Other real estate owned	9,055	14,190
Accrued interest receivable	20,369	22,164
Mortgage loan servicing rights	9,969	9,688
Other	28,282	22,209
Total assets	$7,518,970	$7,537,620
Liabilities and Shareholders' Equity:		
Deposits:		
Noninterest bearing	$1,618,200	$1,633,941
Interest bearing	4,466,094	4,183,385
Total deposits	6,084,294	5,817,326
Short-term borrowings	184,090	391,289
Long-term debt	425,000	500,000
Subordinated notes	15,000	15,000
Unfunded commitments in affordable housing tax credit investments	14,282	14,282
Accrued interest payable	2,024	2,278
Other	41,506	41,344
Total liabilities	$6,766,196	$6,781,519
Shareholders' equity:		
Preferred shares (200,000 shares authorized; 0 shares issued)	$—	$—
Common shares (No par value; 20,000,000 shares authorized; 16,150,740 shares issued at March 31, 2018 and 16,150,752 shares issued at December 31, 2017)	307,249	307,726

Retained earnings	583,941	561,908
Treasury shares (849,637 shares at March 31, 2018 and 862,558 at December 31, 2017)	(85,775)	(87,079)
Accumulated other comprehensive loss, net of taxes	(52,641)	(26,454)
Total shareholders' equity	752,774	756,101
Total liabilities and shareholders’ equity	$7,518,970	$7,537,620

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

3

Table of Contents

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

	Three Months Ended March 31,	
	2018	2017
Interest and dividend income:		
Interest and fees on loans	$64,402	$59,908
Interest and dividends on:		
Obligations of U.S. Government, its agencies and other securities - taxable	6,767	7,138
Obligations of states and political subdivisions - tax-exempt	2,174	1,460
Other interest income	371	249
Total interest and dividend income	73,714	68,755
Interest expense:		
Interest on deposits:		
Demand and savings deposits	3,290	1,614
Time deposits	2,551	2,161
Interest on borrowings:		
Short-term borrowings	575	235
Long-term debt	2,448	5,793
Total interest expense	8,864	9,803
Net interest income	64,850	58,952
Provision for loan losses	260	876
Net interest income after provision for loan losses	64,590	58,076
Other income:		
Income from fiduciary activities	6,395	5,514
Service charges on deposit accounts	2,922	3,139
Other service income	4,172	2,804
Checkcard fee income	4,002	3,761
Bank owned life insurance income	1,009	1,103
ATM fees	524	542
OREO valuation adjustments	(207)	(73)
Gain on sale of OREO, net	4,321	100
Net loss on sale of investment securities	(2,271)	—
Unrealized gain on equity securities	3,489	—
Other components of net periodic benefit income	1,705	1,448
Miscellaneous	842	617
Total other income	26,903	18,955

4

Table of Contents

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

	Three Months Ended March 31,	
	2018	2017
Other expense:		
Salaries	$25,320	$ 22,717
Employee benefits	7,029	6,468
Occupancy expense	2,936	2,635
Furniture and equipment expense	4,149	3,618
Data processing fees	1,773	1,965
Professional fees and services	6,190	4,829
Marketing	1,218	1,056
Insurance	1,428	1,570
Communication	1,250	1,333
State tax expense	1,105	1,063
Miscellaneous	1,910	1,656
Total other expense	54,308	48,910
Income before income taxes	37,185	28,121
Federal income taxes	6,062	7,854
Net income	$31,123	$ 20,267
Earnings per Common Share:		
Basic	$2.04	$ 1.32
Diluted	$2.02	$ 1.31
Weighted average common shares outstanding		
Basic	15,288,332	15,312,059
Diluted	15,431,328	15,432,769
Cash dividends declared	$0.94	$ 0.94

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Table of Contents

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

	Three Months Ended March 31,	
	2018	2017
Net income	$31,123	$20,267
Other comprehensive (loss) income, net of tax:		
Net loss realized on sale of securities, net of income tax benefit of $538	2,024	—
Unrealized net holding (loss) gain on debt securities available-for-sale, net of federal income tax effect of $(6,223) and $550 for the three months ended March 31, 2018 and 2017, respectively	(23,410)	1,022
Other comprehensive (loss) income	$(21,386)	$1,022
Comprehensive income	$9,737	$21,289

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Table of Contents

PARK NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Condensed Statements of Changes in Shareholders' Equity (Unaudited)
(in thousands, except 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			20,267		
Other comprehensive income, net of tax					1,022
Dividends on common shares at $0.94 per share			(14,460)		
Cash payment for fractional common shares in dividend reinvestment plan		(1)			
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		826			
Balance at March 31, 2017	$ —	$305,856	$541,241	$(86,252)	$ (16,723)
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			31,123		
Other comprehensive loss, net of tax					(21,386)
Dividends on common shares at $0.94 per share			(14,496)		
Cash payment for fractional common shares in dividend reinvestment plan		(1)			
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	
Share-based compensation expense		1,121			
Balance at March 31, 2018	$ —	$307,249	$583,941	$(85,775)	$ (52,641)

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Table of Contents

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

	Three Months Ended March 31, 2018	2017
Operating activities:		
Net income	$31,123	$20,267
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	260	876
Amortization of loan fees and costs, net	(1,506)	(1,386)
Increase in prepaid dealer premiums	(471)	(2,401)
Provision for depreciation	2,135	2,121
Amortization of investment securities, net	405	258
Realized net investment securities losses	2,271	—
Unrealized gain on equity securities	(3,489)	—
Amortization of prepayment penalty on long-term debt	—	1,559
Loan originations to be sold in secondary market	(40,379)	(42,370)
Proceeds from sale of loans in secondary market	38,769	46,848
Gain on sale of loans in secondary market	(945)	(787)
Share-based compensation expense	1,121	826
OREO valuation adjustments	207	73
Gain on sale of OREO, net	(4,321)	(100)
Bank owned life insurance income	(1,009)	(1,103)
Investment in qualified affordable housing tax credits amortization	1,851	1,864
Changes in assets and liabilities:		
Increase in other assets	(1,159)	(3,366)
Decrease in other liabilities	(2,891)	(63)
Net cash provided by operating activities	$21,972	$23,116
Investing activities:		
Proceeds from sales of securities	$252,055	$—
Proceeds from calls and maturities of:		
Available-for-sale debt securities	41,097	40,382
Held-to-maturity debt securities	1,652	5,990
Purchases of:		
Available-for-sale debt securities	(270,005)	—
Held-to-maturity debt securities	—	(30,943)
Equity securities	(101)	—
Net loan paydowns (originations), portfolio loans	82,288	(46,115)
Proceeds from the sale of OREO	9,816	674
Life insurance death benefits	1,379	74
Purchases of premises and equipment, net	(2,473)	(1,379)
Net cash provided by (used in) investing activities	$115,708	$(31,317)

Table of Contents

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

	Three Months Ended March 31,	
	2018	2017
Financing activities:		
Net increase in deposits	$266,968	$398,604
Net decrease in short-term borrowings	(207,199)	(174,932)
Proceeds from issuance of long-term debt	25,000	50,000
Repayment of long-term debt	(100,000)	—
Value of common shares withheld to pay employee income taxes	(610)	(347)
Repurchase of common shares to be held as treasury shares	—	(5,425)
Cash dividends paid	(14,370)	(14,373)
Net cash (used in) provided by financing activities	$(30,211)	$253,527
Increase in cash and cash equivalents	107,469	245,326
Cash and cash equivalents at beginning of year	169,112	146,446
Cash and cash equivalents at end of period	$276,581	$391,772
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$9,118	$9,765
Income taxes	$—	$7,500
Non-cash items:		
Loans transferred to OREO	$628	$448
Securities purchase commitments	$2,448	$—

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

PARK NATIONAL CORPORATION
NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation

The accompanying unaudited consolidated condensed financial statements included in this report have been prepared for Park National Corporation (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 periods ended March 31, 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 Not Yet Effective Accounting Standards

The following is a summary of new accounting pronouncements impacting Park's consolidated financial statements, and issued 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 to 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 was recorded in the first quarter of 2018 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 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 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 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 in 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 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 on 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 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 on January 1, 2018.

Issued 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 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.

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 adoption of this guidance is not expected to have a material impact on Park's consolidated financial statements. Park is considering the early adoption of this guidance.

Table of Contents

Note 3 – Loans

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

	March 31, 2018			December 31, 2017		
(In thousands)	Loan Balance	Accrued Interest Receivable	Recorded Investment	Loan Balance	Accrued Interest Receivable	Recorded Investment
Commercial, financial and agricultural *	$1,000,786	$ 4,243	$1,005,029	$1,053,453	$ 4,413	$1,057,866
Commercial real estate *	1,156,563	4,047	1,160,610	1,167,607	4,283	1,171,890
Construction real estate:						
Commercial	126,561	375	126,936	125,389	401	125,790
Mortgage	51,379	119	51,498	52,203	133	52,336
Installment	3,244	11	3,255	3,878	13	3,891
Residential real estate:						
Commercial	389,766	1,043	390,809	393,094	1,029	394,123
Mortgage	1,097,166	1,327	1,098,493	1,110,426	1,516	1,111,942
HELOC	194,158	904	195,062	203,178	974	204,152
Installment	17,570	49	17,619	18,526	53	18,579
Consumer	1,252,251	3,462	1,255,713	1,241,736	3,808	1,245,544
Leases	2,905	46	2,951	2,993	36	3,029
Total loans	$5,292,349	$ 15,626	$5,307,975	$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 March 31, 2018 and $12.2 million at December 31, 2017, which represented a net deferred income position in both periods.

Overdrawn deposit accounts of $1.4 million and $1.9 million had been reclassified to loans at March 31, 2018 and December 31, 2017, respectively, and are included in the commercial, financial and agricultural loan class above.

Table of Contents

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 March 31, 2018 and December 31, 2017:

	March 31, 2018			
(In thousands)	Nonaccrual Loans	Accruing TDRs	Loans Past Due 90 Days or More and Accruing	Total Nonperforming Loans
Commercial, financial and agricultural	$25,985	$ 1,088	$ —	$ 27,073
Commercial real estate	14,213	4,770	—	18,983
Construction real estate:				