

PARK NATIONAL CORP /OH/
Form 8-K
April 24, 2015

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 24, 2015

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

Ohio (State or other jurisdiction of incorporation)	1-13006 (Commission File Number)	31-1179518 (IRS Employer Identification No.)
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50 North Third Street, P.O. Box 3500, Newark, Ohio (Address of principal executive offices)	43058-3500 (Zip Code)
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(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 24, 2015, Park National Corporation (“Park”) issued a news release (the “Financial Results News Release”) announcing financial results for the three months ended March 31, 2015. A copy of this 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 common share. Management has included in the Financial Results News Release information relating to the return on average tangible equity, return on average tangible assets, tangible equity to tangible assets and tangible book value per common share for the three months ended March 31, 2015 and 2014. For purposes of calculating the 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 and other intangible assets during the applicable period. For the purpose of calculating the 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 and other intangible assets 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 and intangible assets, in each case at period end. Tangible assets equals total assets less goodwill and intangible assets, in each case at period end. For the purpose of calculating tangible book value per common share, a non-GAAP financial measure, tangible equity is divided by common 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 common 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 and 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 common share are substitutes for return on average equity, return on average assets, shareholders' equity to total assets and book value per common 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 2015 and 2014, and for the fiscal years ended December 31, 2014, and 2013. 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 2015	Q1 2014	2014	2013
PNB	\$19,159	\$19,565	\$82,907	\$75,236
GFSC	281	604	1,175	2,888
Parent Company	(694)	(904)	(5,050)	(1,397)
Ongoing operations	\$18,746	\$19,265	\$79,032	\$76,727
SEPH	298	312	4,925	142
Total Park	\$19,044	\$19,577	\$83,957	\$76,869

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.

During the first quarter of 2015, Park adopted ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects, and elected the proportional amortization method with amortization expense and tax benefits recognized through the provision for income taxes. Previously, these investments were accounted for under the cost method of accounting with amortization of the investment being recorded in miscellaneous other expense and tax benefits recognized in the provision for income taxes. This ASU is required to be applied retrospectively to all periods presented. As a result of the adoption of this ASU, all prior periods have been recast to reflect amortization under the proportional amortization method.

The Park National Bank (PNB)

The table below reflects PNB's net income for the first quarters of 2015 and 2014, and for the fiscal years ended December 31, 2014 and 2013.

(In thousands)	Q1 2015	Q1 2014	2014	2013
Net interest income	\$53,821	\$53,099	\$218,641	\$210,781
Provision for (recovery of) loan losses	2,022	(140)	3,517	14,039
Other income	18,012	15,703	70,542	70,841
Loss on sale of investment securities	—	—	(1,158)	—
Other expense	41,932	40,392	163,641	158,651
Income before income taxes	\$27,879	\$28,550	\$120,867	\$108,932
Federal income taxes	8,720	8,985	37,960	33,696
Net income	\$19,159	\$19,565	\$82,907	\$75,236

Net interest income for the quarterly period ended March 31, 2015 increased by \$722,000, or 1.36%, compared to the same period in 2014 primarily due to loan growth of 4.81%. Other income of \$18.0 million for the 2015 first quarter represented a \$2.3 million or 14.7% increase, compared to \$15.7 million for the same period in 2014. Included in the \$2.3 million increase was income of \$791,000 related to proceeds from the death benefits paid from a bank owned life insurance policy. Other expense of \$41.9 million for the 2015 first quarter represented an increase of \$1.5 million or 3.81%, compared to \$40.4 million in the 2014 first quarter. Included in the \$1.5 million increase was a contract termination fee and a borrowing prepayment penalty that resulted in additional expense of \$1.1 million.

PNB results for the three months ended March 31, 2015 also included income and expense related to participations in legacy Vision Bank ("Vision") assets. For the three months ended March 31, 2015, there were recoveries from loans previously charged off of \$541,000, gains on the sale of OREO of \$360,000, gains on sale of loans of \$46,000 and expenses of \$235,000 related to participations in legacy Vision assets. For the three months ended March 31, 2014, there were recoveries from loans previously charged off of \$1.9 million and expenses of \$270,000 related to participations in legacy Vision assets. For the fiscal year ended December 31, 2014, there were net recoveries from loans previously charged off of \$6.2 million, gains on the sale of OREO of \$1.2 million and expenses of \$2.0 million related to participations in legacy Vision assets. For the fiscal year ended December 31, 2013, there were net recoveries of \$0.6 million and expenses of \$1.6 million related to participations in legacy Vision assets.

The table below provides certain balance sheet information and financial ratios for PNB as of March 31, 2015, December 31, 2014 and March 31, 2014.

(In thousands)	March 31, 2015	December 31, 2014	March 31, 2014	% change from 12/31/14	% change from 03/31/14
Loans	\$4,786,901	\$4,781,761	\$4,567,326	0.11	% 4.81
Allowance for loan losses	53,141	52,000	57,795	2.19	%(8.05)
Net loans	4,733,760	4,729,761	4,509,531	0.08	% 4.97
Investment securities	1,454,895	1,498,444	1,414,289	(2.91)	%(2.87)
Total assets	7,212,490	6,910,386	6,700,563	4.37	% 7.64
Average assets	7,118,563	6,790,615	6,654,086	4.83	% 6.98
Return on average assets	1.09	% 1.22	% 1.19	% (10.66)	%(8.40)

Loans outstanding at March 31, 2015 of \$4.79 billion represented an increase of \$5.1 million, or 0.11%, compared to the loans outstanding of \$4.78 billion at December 31, 2014.

PNB's allowance for loan losses increased by \$1.1 million, or 2.19%, to \$53.1 million at March 31, 2015, compared to \$52.0 million at December 31, 2014. Net charge-offs were \$881,000, or an annualized 0.07% of total average loans, for the three months ended March 31, 2015. Refer to the "Credit Metrics and Provision for (recovery of) Loan Losses" section for additional information regarding the credit metrics of PNB's loan portfolio and the level of provision for (recovery of) loan losses

recognized in each period presented.

Guardian Financial Services Company (GFSC)

The table below reflects GFSC's net income for the first quarters of 2015 and 2014, and for the fiscal years ended December 31, 2014 and 2013.

(In thousands)	Q1 2015	Q1 2014	2014	2013
Net interest income	\$1,692	\$1,978	\$7,457	\$8,741
Provision for loan losses	495	274	1,544	1,175
Other income (loss)	2	1	(1)11
Other expense	779	775	4,103	3,133
Income before income taxes	\$420	\$930	\$1,809	\$4,444
Federal income taxes	139	326	634	1,556
Net income	\$281	\$604	\$1,175	\$2,888

The table below provides certain balance sheet information and financial ratios for GFSC as of March 31, 2015, December 31, 2014 and March 31, 2014.

(In thousands)	March 31, 2015	December 31, 2014	March 31, 2014	% change from 12/31/14	% change from 03/31/14	
Loans	\$38,901	\$40,645	\$44,615	(4.29)%(12.81)%
Allowance for loan losses	2,267	2,352	2,462	(3.61)%(7.92)%
Net loans	36,634	38,293	42,153	(4.33)%(13.09)%
Total assets	38,569	40,308	44,564	(4.31)%(13.45)%
Average assets	39,661	43,038	46,104	(7.85)%(13.97)%
Return on average assets	2.87	%2.73	%5.31	% 5.13	% (45.95)%

Park Parent Company

The table below reflects the Park Parent Company net loss for the first quarters of 2015 and 2014, and for the fiscal years ended December 31, 2014 and 2013.

(In thousands)	Q1 2015	Q1 2014	2014	2013
Net interest income (expense)	\$110	\$(402)	\$(2,012)	\$2,828
Provision for loan losses	—	—	—	—
Other income	99	107	175	469
Other expense	1,911	2,091	8,000	7,520
Loss before income taxes	\$(1,702)	\$(2,386)	\$(9,837)	\$(4,223)
Federal income tax benefit	(1,008)	(1,482)	(4,787)	(2,826)
Net loss	\$(694)	\$(904)	\$(5,050)	\$(1,397)

The net interest income (expense) for Park's parent company includes interest income on loans to SEPH and on subordinated debt investments in PNB, which are eliminated in the consolidated Park National Corporation totals. Additionally, net interest income (expense) includes interest expense related to the \$30.00 million of subordinated notes issued by Park to accredited investors on April 20, 2012. Prior period results included interest expense related to the \$35.25 million of subordinated notes issued by Park to accredited investors on December 23, 2009. Park paid in full 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.

SEPH

The table below reflects SEPH's net income for the first quarters of 2015 and 2014, and for the fiscal years ended December 31, 2014 and 2013. SEPH holds the remaining assets and liabilities of those 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 2015	Q1 2014	2014	2013
Net interest income (expense)	\$(88)	\$(195)	\$958	\$(1,325)
Recovery of loan losses	(885)	(2,359)	(12,394)	(11,799)
Other income	760	837	5,991	1,956
Other expense	1,098	2,521	11,766	12,211
Income before income taxes	\$459	\$480	\$7,577	\$219
Federal income taxes	161	168	2,652	77
Net income	\$298	\$312	\$4,925	\$142

SEPH's financial results for the three months ended March 31, 2015 included net recoveries of \$885,000. The net recoveries during 2015 consisted of charge-offs of \$16,000, offset by recoveries from loans previously charged off of \$901,000. Other income for the three months ended March 31, 2015 at SEPH of \$760,000 was largely related to net gains on the sale of loans of \$722,000 and non-yield loan fee income of \$130,000, offset by OREO devaluations of \$94,000. The \$1.4 million decline in other expense for the three months ended March 31, 2015 compared to the same period in 2014 was primarily the result of declines in legal fees of \$574,000, management and consulting fees of \$191,000 and other OREO expense of \$425,000.

On February 16, 2012, when Vision merged with and into SEPH, the loans then held by Vision were transferred to SEPH by operation of law at their fair value and no allowance for loan loss is carried at SEPH. The loans included in both the performing and nonperforming portfolios have been charged down to their fair value. The table below provides additional information for SEPH regarding charge-offs as a percentage of the unpaid principal balance, as of March 31, 2015.

SEPH - Retained Vision Loan Portfolio

(In thousands)	Unpaid Principal Balance	Aggregate Charge-Offs	Net Book Balance	Charge-off Percentage	
Nonperforming loans	\$35,072	\$16,490	\$18,582	47.02	%
Performing loans - retained by SEPH	1,021	91	930	8.91	%
Total SEPH loan exposure	\$36,093	\$16,581	\$19,512	45.94	%

The table below provides an overview of SEPH loans and OREO, representing the legacy Vision assets. This information is provided as of March 31, 2015, December 31, 2014, and December 31, 2013, showing the decline in legacy Vision assets at SEPH over the last fifteen months.

(In thousands)	SEPH 03/31/15	SEPH 12/31/14	SEPH 12/31/13	Change from 12/31/14	Change from 12/31/13
Nonperforming loans	\$18,582	\$23,013	\$36,108	\$(4,431)	\$(17,526)
OREO	16,114	11,918	23,224	4,196	(7,110)
Total nonperforming assets	\$34,696	\$34,931	\$59,332	\$(235)	\$(24,636)
Performing loans	\$930	\$943	\$1,907	\$(13)	\$(977)
Total SEPH - Legacy Vision assets	\$35,626	\$35,874	\$61,239	\$(248)	\$(25,613)

OREO at SEPH increased by \$4.2 million from \$11.9 million at December 31, 2014 to \$16.1 million at March 31, 2015. The increase is due to the continued workout of problem credits. In addition to the SEPH assets listed above, PNB participations in legacy Vision assets totaled \$11.5 million, \$11.5 million, and \$12.3 million at March 31, 2015, December 31, 2014, and December 31, 2013, respectively.

Park National Corporation

The table below reflects Park's net income for the first quarters of 2015 and 2014, and for the fiscal years ended December 31, 2014 and 2013.

(In thousands)	Q1 2015	Q1 2014	2014	2013
Net interest income	\$55,535	\$54,480	\$225,044	\$221,025
Provision for (recovery of) loan losses	1,632	(2,225)	(7,333)	3,415
Other income	18,873	16,648	75,549	73,277
Other expense	45,720	45,779	187,510	181,515
Income before income taxes	\$27,056	\$27,574	\$120,416	\$109,372
Federal income taxes	8,012	7,997	36,459	32,503
Net income	\$19,044	\$19,577	\$83,957	\$76,869

Credit Metrics and Provision for (Recovery of) Loan Losses

Park reported a provision for loan losses for the three months ended March 31, 2015 of \$1.6 million, compared to a recovery of loan losses of \$2.2 million for the three months ended March 31, 2014, a recovery of \$7.3 million for the fiscal year ended December 31, 2014 and a provision for loan losses of \$3.4 million for the fiscal year ended December 31, 2013. The table below shows a breakdown of the provision for (recovery of) loan losses by reportable segment.

(In thousands)	Q1 2015	Q1 2014	2014	2013
PNB	\$2,022	\$(140)	\$3,517	\$14,039
GFSC	495	274	1,544	1,175
Park Parent	—	—	—	—
Total Ongoing Operations	\$2,517	\$134	\$5,061	\$15,214
SEPH	(885)	(2,359)	(12,394)	(11,799)
Total Park	\$1,632	\$(2,225)	\$(7,333)	\$3,415

SEPH had net recoveries of \$885,000, PNB had net charge-offs of \$881,000, and GFSC had net charge-offs of \$580,000 for the three months ended March 31, 2015, resulting in net charge-offs of \$576,000 for Park. Provision for loan losses at Park of \$1.6 million in excess of the net charge-offs of \$576,000, were primarily related to specific reserves established on impaired commercial loans.

The table below provides additional information related to specific reserves and general reserves for Park's ongoing operations as of March 31, 2015, December 31, 2014 and March 31, 2014.

(In thousands)	3/31/2015	12/31/2014	3/31/2014	
Total allowance for loan losses	\$55,408	\$54,352	\$60,257	
Specific reserve	5,064	3,660	11,322	
General reserve	\$50,344	\$50,692	\$48,935	
Total loans	\$4,811,318	\$4,805,725	\$4,590,787	
Impaired loans	52,260	51,323	75,196	
Performing loans	\$4,759,058	\$4,754,402	\$4,515,591	
General reserve as a % of performing loans	1.06	% 1.07	% 1.08	%

Note: The table above includes only those loans at PNB and GFSC, as these are the entities that have an ALLL balance. The table in the "Asset Quality Information" section of the financial information included with the Financial Results News Release, includes all Park loans (including those at SEPH) and thus shows slightly different information.

Overall, credit metrics continued to improve at Park. The table below provides additional information regarding the declines in nonaccrual loans as a percentage of period end loans and nonperforming assets as a percentage of period end assets for Park over the last five years.

	March 31, 2015	Year ended December 31,					
		2014	2013	2012	2011	2010	
Nonaccrual loans as a percentage of period end loans	1.98	% 2.08	% 2.93	% 3.49	% 4.52	% 6.11	%
Nonperforming assets as a percentage of period end assets	1.92	% 2.03	% 2.87	% 3.37	% 3.86	% 4.59	%

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Park cautions that any forward-looking statements contained in this Current Report on Form 8-K or made by management of Park are provided to assist in the understanding of anticipated future financial performance. Forward-looking statements provide current expectations or forecasts of future events and are not guarantees of future performance. The forward-looking statements are based on management's expectations and are subject to a number of risks and uncertainties. Although management believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from those expressed or implied in such statements. Risks and uncertainties that could cause actual results to differ materially include, without limitation: Park's ability to execute our business plan successfully and within the expected timeframe; general economic and financial market conditions, specifically in the real estate markets and the credit markets, either nationally or in the states in which Park and our subsidiaries do business, may experience a slowing or reversal of the current economic expansion in addition to continuing residual effects of recessionary conditions and an uneven spread of positive impacts of recovery on the economy and our counterparties, including adverse impacts on demand for loan, deposit and other financial services, delinquencies, defaults and counterparty ability to meet credit and other obligations; changes in interest rates and prices may adversely impact the value of securities, loans, deposits and other financial instruments and the interest rate sensitivity of our consolidated balance sheet as well as reduce interest margins; changes in consumer spending, borrowing and saving habits, whether due to changing business and economic conditions, legislative and regulatory initiatives, or other factors; changes in customers', suppliers', and other counterparties' performance and creditworthiness; asset/liability repricing risks and liquidity risks; our liquidity requirements could be adversely affected by changes to regulations governing bank capital and liquidity standards as well as by changes in our assets and liabilities; competitive factors among financial services organizations could increase significantly, including product and pricing pressures, changes to third-party relationships and our ability to attract, develop and retain qualified bank professionals; clients could pursue alternatives to bank deposits, causing us to lose a relatively inexpensive source of funding; the nature, timing and effect of changes in banking regulations or other regulatory or legislative requirements affecting the respective businesses of Park and our subsidiaries, including changes in laws and regulations concerning taxes, pensions, bankruptcy, consumer protection, accounting, banking, securities and other aspects of the financial services industry, specifically the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), as well as future regulations which will be adopted by the relevant regulatory agencies, including the Consumer Financial Protection Bureau, to implement the Dodd-Frank Act's provisions, the Budget Control Act of 2011, the American Taxpayer Relief Act of 2012 and the Basel III regulatory capital reforms; the effect of changes in accounting policies and practices, as may be adopted by the Financial Accounting Standards Board, the SEC, the Public Company Accounting Oversight Board and other regulatory agencies, and the accuracy of our assumptions and estimates used to prepare our financial statements; the effect of trade, monetary, fiscal and other governmental policies of the U.S. federal government, including money supply and interest rate policies of the Federal Reserve; disruption in the liquidity and other functioning of U.S. financial markets; the impact on financial markets and the economy of any changes in the credit ratings of the U.S. Treasury obligations and other U.S. government-backed debt, as well as issues surrounding the levels of U.S. and European government debt and concerns regarding the creditworthiness of certain sovereign governments, supranationals and financial institutions in Europe; unfavorable resolution of legal proceedings or other claims and regulatory and other governmental examinations or other inquiries; the adequacy of our risk management program; the ability to secure confidential information and deliver products and services through the use of computer systems and telecommunications networks; a failure in or breach of our operational or security systems or infrastructure, or those of our third-party vendors and other service providers, including as a result of cyber attacks; demand for loans in the respective market areas served by Park and our subsidiaries; and other risk factors relating to the banking industry as detailed from time to time in Park's reports filed with the SEC including those described in "Item 1A. Risk Factors" of Part I of Park's Annual Report on Form 10-K for the fiscal year ended December 31, 2014. Park does not undertake, and specifically disclaims any obligation, to publicly release the results of any revisions that may be made to update any forward-looking statement to reflect the events or circumstances after the date on which the forward-looking statement was made, or reflect the occurrence of unanticipated events, except to the extent required by law.

Item 8.01 - Other Events

Declaration of Cash Dividend

As reported in the Financial Results News Release, on April 24, 2015, the Park Board of Directors declared a \$0.94 per share quarterly cash dividend in respect of Park's common shares. The dividend is payable on June 10, 2015 to common shareholders of record as of the close of business on May 22, 2015. A copy of the Financial Results News Release is included as Exhibit 99.1 and the portion thereof addressing the declaration of the cash dividend by Park's Board of Directors is incorporated by reference herein.

Item 9.01 - Financial Statements and Exhibits.

(a) Not applicable

(b) Not applicable

(c) Not applicable

(d) Exhibits. The following exhibit is included with this Current Report on Form 8-K:

Exhibit No.	Description
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99.1	News Release issued by Park National Corporation on April 24, 2015 addressing financial results for the three months ended March 31, 2015.
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signature page follows.]

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PARK NATIONAL CORPORATION

Dated: April 24, 2015

By: /s/ Brady T. Burt
Brady T. Burt
Chief Financial Officer, Secretary and Treasurer

INDEX TO EXHIBITS

Current Report on Form 8-K
Dated April 24, 2015

Park National Corporation

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99.1	News Release issued by Park National Corporation on April 24, 2015 addressing financial results for the three months ended March 31, 2015.