

PARK NATIONAL CORP /OH/
Form 8-K
April 21, 2017

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 21, 2017

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

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

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

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

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

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

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

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

Exchange Act. "

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Item 2.02 - Results of Operations and Financial Condition.

On April 21, 2017, Park National Corporation (“Park”) issued a news release (the “Financial Results News Release”) announcing financial results for the three months ended March 31, 2017. A copy of the Financial Results News Release is included as Exhibit 99.1 to this Current Report on Form 8-K and incorporated by reference herein.

Park's management uses certain non-GAAP (generally accepted accounting principles) financial measures to evaluate Park's performance. Specifically, management reviews return on average tangible equity, return on average tangible assets, tangible equity to tangible assets and tangible book value per share. Management has included in the Financial Results News Release information relating to the annualized return on average tangible equity, annualized return on average tangible assets, tangible equity to tangible assets and tangible book value per share for the three months ended and at March 31, 2017, December 31, 2016 and March 31, 2016. For purposes of calculating the annualized return on average tangible equity, a non-GAAP financial measure, net income for each period is divided by average tangible equity during the period. Average tangible equity equals average shareholders' equity during the applicable period less average goodwill during the applicable period. For the purpose of calculating the annualized return on average tangible assets, a non-GAAP financial measure, net income for each period is divided by average tangible assets during the period. Average tangible assets equals average assets during the applicable period less average goodwill during the applicable period. For the purpose of calculating tangible equity to tangible assets, a non-GAAP financial measure, tangible equity is divided by tangible assets. Tangible equity equals total shareholders' equity less goodwill, in each case at period end. Tangible assets equals total assets less goodwill, in each case at period end. For the purpose of calculating tangible book value per share, a non-GAAP financial measure, tangible equity is divided by 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 share presents additional information to the reader of the consolidated financial statements, which, when read in conjunction with the consolidated financial statements prepared in accordance with GAAP, assists in analyzing Park's operating performance, ensures comparability of operating performance from period to period, and facilitates comparisons with the performance of Park's peer financial holding companies and bank holding companies, while eliminating certain non-operational effects of acquisitions. In the Financial Results News Release, Park has provided a reconciliation of average tangible equity to average shareholders' equity, average tangible assets to average assets, tangible equity to total shareholders' equity and tangible assets to total assets solely for the purpose of complying with SEC Regulation G and not as an indication that return on average tangible equity, return on average tangible assets, tangible equity to tangible assets and tangible book value per share are substitutes for return on average equity, return on average assets, total shareholders' equity to total assets and book value per share, respectively, as determined by GAAP.

Item 7.01 - Regulation FD Disclosure

Financial Results by segment

The table below reflects the net income (loss) by segment for the first quarters of 2017 and 2016, and for the fiscal years ended December 31, 2016 and 2015. 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 2017	Q1 2016	2016	2015
PNB	\$21,486	\$21,744	\$84,451	\$84,345
GFSC	198	(1,836)	(307)	1,423
Parent Company	(1,226)	(1,834)	(4,557)	(4,549)
Ongoing operations	\$20,458	\$18,074	\$79,587	\$81,219
SEPH	(191)	612	6,548	(207)
Total Park	\$20,267	\$18,686	\$86,135	\$81,012

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

The Park National Bank (PNB)

The table below reflects PNB's net income for the first quarters of 2017 and 2016, and for the fiscal years ended December 31, 2016 and 2015.

(In thousands)	Q1 2017	Q1 2016	2016	2015
Net interest income	\$57,480	\$57,155	\$227,576	\$220,879
Provision for loan losses	720	1,533	2,611	7,665
Other income	17,711	17,223	74,803	75,188
Other expense	43,803	41,360	177,562	167,476
Income before income taxes	\$30,668	\$31,485	\$122,206	\$120,926
Federal income tax expense	9,182	9,741	37,755	36,581
Net income	\$21,486	\$21,744	\$84,451	\$84,345

Net interest income of \$57.5 million for the three months ended March 31, 2017 represented a \$325,000, or 0.6% increase, compared to \$57.2 million for the same period of 2016. The increase was the result of a \$629,000 increase in interest income offset by a \$304,000 increase in interest expense.

The \$629,000 increase in interest income was due to a \$1.0 million increase in interest income on loans, offset by a \$405,000 decrease in interest income on investments. The increase in interest income on loans was largely the result of a \$231 million, or 4.4%, increase in average loans from \$5.0 billion for the three months ended March 31, 2016, to \$5.2 billion for the three months ended March 31, 2017. Included in interest income for the three months ended March 31, 2017 was \$80,000 in income related to PNB participations in legacy Vision Bank ("Vision") assets, compared to \$561,000 for the three months ended March 31, 2016.

The provision for loan losses of \$720,000 for the three months ended March 31, 2017 represented an improvement of \$813,000, compared to a provision of loan losses of \$1.5 million for the same period of 2016. Refer to the "Credit

Metrics and Provision for (Recovery of) Loan Losses” section for additional details regarding the level of the provision for loan losses recognized in each period presented above.

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Other expense of \$43.8 million for the three months ended March 31, 2017 represented an increase of \$2.4 million, or 5.9%, compared to \$41.4 million for the same period of 2016. The \$2.4 million increase was primarily related to a \$1.1 million increase in salaries expense, a \$511,000 increase in employee benefits expense (largely related to an increase in medical expenses), an increase of \$739,000 in data processing fees, an increase of \$177,000 in furniture and equipment expense, and an \$174,000 increase in insurance expense, offset by a decrease of \$310,000 in professional fees and services, and a \$224,000 decrease in non-loan related losses which are included in miscellaneous expense.

PNB's results for the first quarters of 2017 and 2016, and for the fiscal year ended December 31, 2016, included income and expense related to participations in legacy Vision assets. The impact of these participations on particular items within PNB's income and expense for these periods is detailed in the table below:

(In thousands)	1Q 2017			1Q 2016			2016		
	PNB as reported	Adjustments	PNB as adjusted ⁽¹⁾	PNB as reported ⁽¹⁾	Adjustments	PNB as adjusted	PNB as reported ⁽¹⁾	Adjustments	PNB as adjusted
Net interest income	\$57,480	\$ 80	\$57,400	\$57,155	\$ 561	\$56,594	\$227,576	\$ 801	\$226,775
Provision for (recovery of) loan losses	720	(6)	726	1,533	(5)	1,538	2,611	(3,118)	5,729
Other income	17,711	—	17,711	17,223	(202)	17,425	74,803	194	74,609
Other expense	43,803	99	43,704	41,360	221	41,139	177,562	662	176,900
Income before income taxes	\$30,668	\$ (13)	\$30,681	\$31,485	\$ 143	\$31,342	\$122,206	\$ 3,451	\$118,755
Federal income tax expense (benefit)	9,182	(4)	9,186	9,741	44	9,697	37,755	1,066	36,689
Net income (expense)	\$21,486	\$ (9)	\$21,495	\$21,744	\$ 99	\$21,645	\$84,451	\$ 2,385	\$82,066

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

The table below provides certain balance sheet information and financial ratios for PNB as of March 31, 2017, December 31, 2016 and March 31, 2016.

(In thousands)	March 31, 2017	December 31, 2016	March 31, 2016	% change from 12/31/16	% change from 03/31/16
Loans	\$5,276,643	\$5,234,828	\$5,023,659	0.80 %	5.04 %
Allowance for loan losses	47,983	48,782	54,646	(1.64) %	(12.19) %
Net loans	5,228,660	5,186,046	4,969,013		