PARK NATIONAL CORP /OH/
Form 8-K
April 20, 2018

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 20, 2018

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

Ohio	1-13006	31-1179518
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer 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 20, 2018, Park National Corporation (“Park”) issued a news release (the “Financial Results News Release”) announcing financial results for the three months ended March 31, 2018. 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, 2018, December 31, 2017 and March 31, 2017. 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 the number of 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 in accordance with 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 2018 and 2017 and for the fiscal years ended December 31, 2017 and 2016. 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 2018	Q1 2017	2017	2016
PNB	$26,745	$21,486	$87,315	$84,451
GFSC	57	198	260	(307)
Parent Company	1,465	(1,226)	(2,457)	(4,557)
Ongoing operations	$28,267	$20,458	$85,118	$79,587
SEPH	2,856	(191)	(876)	6,548
Total Park	$31,123	$20,267	$84,242	$86,135

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.

During the first quarter of 2018, Park adopted ASU 2017-07, 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 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. 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 separately record the service cost component and other components of net benefit cost. For Park, this resulted in an increase in other income and an offsetting increase in other expense with no change to net income.

During the first quarter of 2018, Park adopted ASU 2016-01, 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. As a result of the adoption of this ASU, Park recorded an increase of $1.9 million to beginning retained earnings. Additional expense of $244,000, net of tax, was recorded in the first quarter of 2018 as the result of changes to the accounting for equity investments.

The Park National Bank (PNB)

The table below reflects PNB's net income for the first quarters of 2018 and 2017 and for the fiscal years ended December 31, 2017 and 2016.

(In thousands)	Q1 2018	Q1 2017	2017	2016
Net interest income	$61,441	$57,480	$235,243	$227,576
(Recovery of) provision for loan losses	(67)	720	9,898	2,611

Other income	19,915	19,114	82,742	79,959
Other expense	49,001	45,206	185,891	182,718
Income before income taxes	$32,422	$30,668	$122,196	$122,206
Federal income tax expense	5,677	9,182	34,881	37,755
Net income	$26,745	$21,486	$87,315	$84,451

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Net interest income of $61.4 million for the three months ended March 31, 2018 represented a $4.0 million, or 6.9%, increase compared to $57.5 million for the three months ended March 31, 2017. The increase was the result of a $3.5 million increase in interest income and a $477,000 decrease in interest expense.
The $3.5 million increase in interest income was due to a $3.0 million increase in interest income on loans, along with a $493,000 increase in interest income on investments. The increase in interest income on loans was the result of a $35.8 million, or 0.7%, increase in average loans from $5.24 billion for the three months ended March 31, 2017, to $5.28 billion for the three months ended March 31, 2018, combined with higher yields on loans. The yield on loans was 4.71% for the three months ended March 31, 2018, compared to 4.53% for the three months ended March 31, 2017. Included in interest income for the three months ended March 31, 2018 and 2017 was $619,000 and $80,000 in interest income, respectively, related to PNB participations in legacy Vision Bank ("Vision") assets.
The $477,000 decrease in interest expense was due to a $2.1 million increase in interest expense on deposits offset by a $2.5 decrease in interest expense on borrowings. The increase in interest expense on deposits was partially the result of a $153.5 million, or 3.7%, increase in average interest-bearing deposits from $4.21 billion for the three months ended March 31, 2017, to $4.36 billion for the three months ended March 31, 2018. Additionally, the cost of deposits increased by 18 basis points from 0.36% for the three months ended March 31, 2017 to 0.54% for the three months ended March 31, 2018. The decrease in interest expense on borrowings was the result of a decrease in long-term debt. During the fourth quarter of 2017, Park utilized excess cash to repay $350 million of long-term debt which matured during November 2017. The effective interest rate on the long-term debt was 3.22%.
The recovery of loan losses of $67,000 for the three months ended March 31, 2018 represented a decrease of $787,000, compared to a provision of loan losses of $720,000 for the three months ended March 31, 2017. Refer to the “Credit Metrics and Provision for (Recovery of) Loan Losses” section for additional details regarding the level of the (recovery of) provision for loan losses recognized in each period presented above.
Other income of $19.9 million for the three months ended March 31, 2018 represented an increase of $801,000, or 4.2%, compared to $19.1 million for the three months ended March 31, 2017. The $801,000 increase was primarily related to a $1.5 million increase in gains on sale of OREO, net, a $881,000 increase in fiduciary income, a $351,000 increase in other service income, and a $242,000 increase in check card fee income income, offset by a $2.3 million net loss on sale of securities during the three months ended March 31, 2018 and a $217,000 decrease in service charges on deposit accounts.
Other expense of $49.0 million for the three months ended March 31, 2018 represented an increase of $3.8 million, or 8.4%, compared to $45.2 million for the three months ended March 31, 2017. The $3.8 million increase was primarily related to a $2.3 million increase in salaries expense, a $567,000 increase in employee benefits expense, a $510,000 increase in furniture and equipment expense, a $188,000 increase in non-loan related losses which are included in miscellaneous expense, and a $303,000 increase in occupancy expense, offset by a $259,000 decrease in data processing fees.

Federal income tax expense of $5.7 million for the three months ended March 31, 2018 represented a decrease of $3.5 million compared to $9.2 million for the three months ended March 31, 2017. The decrease in federal income tax expense was largely due to a decrease in the corporate federal income tax rate from 35% to 21%, effective January 1, 2018.

PNB's results for the first quarters of 2018 and 2017, and for the fiscal year ended December 31, 2017, 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 fiscal periods is detailed in the table below:

	1Q 2018			1Q 2017			2017		
(In thousands)	PNB as reported	Adjustments (1)	PNB as adjusted	PNB as reported	Adjustments (1)	PNB as adjusted	PNB as reported	Adjustments (1)	PNB as adjusted
Net interest income	$61,441	$ 619	$60,822	$57,480	$ 80	$57,400	$235,243	$ 233	$235,010
(Recovery of) provision for loan losses	(67)	(5)	(62)	720	(6)	726	9,898	(5)	9,903

Other income	19,915	1,431	18,484	19,114	—	19,114	82,742	244	82,498
Other expense	49,001	37	48,964	45,206	99	45,107	185,891	492	185,399
Income (loss) before income taxes	$32,422	$ 2,018	$30,404	$30,668	$ (13)	$30,681	$122,196	$ (10)	$122,206
Federal income tax expense (benefit)	5,677	353	5,324	9,182	(4)	9,186	34,881	(3)	34,884
Net income (loss)	$26,745	$ 1,665	$25,080	$21,486	$ (9)	$21,495	$87,315	$ (7)	$87,322

(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 or for the three months ended March 31, 2018 and 2017 and the fiscal year ended December 31, 2017.

(In thousands)	March 31, 2018	December 31, 2017	March 31, 2017	% change from 12/31/17	% change from 03/31/17
Loans	$5,274,340	$5,339,255	$5,276,643		