

PARK NATIONAL CORP /OH/
Form 10-Q
October 31, 2017

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 September 30, 2017

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 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 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 Accelerated filer
Non-accelerated filer Smaller reporting company
(Do not check if a Emerging growth company
smaller reporting

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: 15,288,211 Common shares, no par value per share, outstanding at October 30, 2017.

PARK NATIONAL CORPORATION

CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Consolidated Condensed Balance Sheets as of September 30, 2017 and December 31, 2016 (unaudited)</u>	3
<u>Consolidated Condensed Statements of Income for the three and nine months ended September 30, 2017 and 2016 (unaudited)</u>	4
<u>Consolidated Condensed Statements of Comprehensive Income for the three and nine months ended September 30, 2017 and 2016 (unaudited)</u>	6
<u>Consolidated Condensed Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2017 and 2016 (unaudited)</u>	7
Consolidated Condensed Statements of Cash Flows for the nine months ended September 30, 2017 and 2016 (unaudited)	8
<u>Notes to Unaudited Consolidated Condensed Financial Statements</u>	10
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	48
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	72
<u>Item 4. Controls and Procedures</u>	72
PART II. OTHER INFORMATION	73
<u>Item 1. Legal Proceedings</u>	73
<u>Item 1A. Risk Factors</u>	73
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	73
<u>Item 3. Defaults Upon Senior Securities</u>	74
<u>Item 4. Mine Safety Disclosures</u>	75
<u>Item 5. Other Information</u>	75
<u>Item 6. Exhibits</u>	75
<u>SIGNATURES</u>	77

Table of Contents

PARK NATIONAL CORPORATION AND SUBSIDIARIES

Consolidated Condensed Balance Sheets (Unaudited)

(in thousands, except share and per share data)

	September 30, 2017	December 31, 2016
Assets:		
Cash and due from banks	\$ 118,884	\$ 122,811
Money market instruments	331,468	23,635
Cash and cash equivalents	450,352	146,446
Investment securities:		
Securities available-for-sale, at fair value (amortized cost of \$1,163,893 and \$1,262,761 at September 30, 2017 and December 31, 2016, respectively)	1,166,562	1,258,139
Securities held-to-maturity, at amortized cost (fair value of \$347,110 and \$256,672 at September 30, 2017 and December 31, 2016, respectively)	342,665	259,833
Other investment securities	61,811	61,811
Total investment securities	1,571,038	1,579,783
Loans		
Allowance for loan losses	(55,232) (50,624
Net loans	5,310,645	5,221,233
Bank owned life insurance	188,254	185,234
Prepaid assets	95,717	88,874
Goodwill	72,334	72,334
Premises and equipment, net	56,179	57,971
Affordable housing tax credit investments	54,355	52,947
Other real estate owned	14,366	13,926
Accrued interest receivable	21,246	18,822
Mortgage loan servicing rights, net	9,479	9,266
Other	18,730	20,750
Total assets	\$ 7,862,695	\$ 7,467,586
Liabilities and Shareholders' Equity:		
Deposits:		
Noninterest bearing	\$ 1,568,177	\$ 1,523,417
Interest bearing	4,406,145	3,998,539
Total deposits	5,974,322	5,521,956
Short-term borrowings	192,896	394,795
Long-term debt	848,992	694,281
Subordinated notes	15,000	45,000
Unfunded commitments in affordable housing tax credit investments	21,282	14,282
Accrued interest payable	2,582	2,151
Other	48,254	52,881
Total liabilities	\$ 7,103,328	\$ 6,725,346
Shareholders' equity:		
Preferred shares (200,000 shares authorized; 0 shares issued)	\$ —	\$ —
Common shares (No par value; 20,000,000 shares authorized; 16,150,769 shares issued at September 30, 2017 and 16,150,807 shares issued at December 31, 2016)	307,143	305,826

Edgar Filing: PARK NATIONAL CORP /OH/ - Form 10-Q

Retained earnings	553,434	535,631
Treasury shares (873,708 shares at September 30, 2017 and 810,089 at December 31, 2016)	(88,205)	(81,472)
Accumulated other comprehensive loss, net of taxes	(13,005)	(17,745)
Total shareholders' equity	759,367	742,240
Total liabilities and shareholders' equity	\$ 7,862,695	\$ 7,467,586

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest and dividend income:				
Interest and fees on loans	\$63,110	\$59,893	\$184,240	\$178,346
Interest and dividends on:				
Obligations of U.S. Government, its agencies and other securities	6,757	7,339	20,787	23,718
Obligations of states and political subdivisions	1,974	689	5,098	1,653
Other interest income	1,383	321	2,330	844
Total interest and dividend income	73,224	68,242	212,455	204,561
Interest expense:				
Interest on deposits:				
Demand and savings deposits	2,882	1,094	6,787	2,851
Time deposits	2,521	2,352	7,139	7,128
Interest on borrowings:				
Short-term borrowings	197	84	616	330
Long-term debt	6,073	6,179	17,632	18,415
Total interest expense	11,673	9,709	32,174	28,724
Net interest income	61,551	58,533	180,281	175,837
Provision for (recovery of) loan losses	3,283	(7,366)	8,740	(3,819)
Net interest income after provision for (recovery of) loan losses	58,268	65,899	171,541	179,656
Other income:				
Income from fiduciary activities	5,932	5,315	17,471	15,866
Service charges on deposit accounts	3,216	3,800	9,511	10,798
Other service income	3,357	3,640	9,608	9,565
Checkcard fee income	3,974	3,780	11,775	11,180
Bank owned life insurance income	1,573	1,038	3,790	3,284
ATM fees	605	581	1,708	1,734
OREO valuation adjustments	(22)	(233)	(367)	(572)
Gain on sale of OREO, net	51	783	204	1,079
Miscellaneous	3,403	1,831	5,147	3,726
Total other income	22,089	20,535	58,847	56,660

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Other expense:				
Salaries	\$23,302	\$ 22,084	\$69,020	\$ 64,894
Employee benefits	4,656	5,073	14,756	14,740
Occupancy expense	2,559	2,506	7,759	7,693
Furniture and equipment expense	3,868	3,437	11,126	10,296
Data processing fees	1,919	1,450	5,560	4,040
Professional fees and services	6,100	6,356	16,947	18,424
Marketing	1,122	1,062	3,262	3,246
Insurance	1,499	1,423	4,586	4,272
Communication	1,110	1,154	3,598	3,728
State tax expense	912	895	2,918	2,619
Miscellaneous	2,764	1,316	5,847	8,009
Total other expense	49,811	46,756	145,379	141,961
Income before income taxes	30,546	39,678	85,009	94,355
Federal income taxes	8,434	12,229	23,598	28,222
Net income	\$22,112	\$ 27,449	\$61,411	\$ 66,133
Earnings per Common Share:				
Basic	\$1.45	\$ 1.79	\$4.01	\$ 4.31
Diluted	\$1.44	\$ 1.78	\$3.99	\$ 4.29
Weighted average common shares outstanding				
Basic	15,287,974	15,330,791	15,299,035	15,330,802
Diluted	15,351,590	15,399,707	15,394,195	15,401,825
Cash dividends declared	\$0.94	\$ 0.94	\$2.82	\$ 2.82

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 September 30, 2017		2016		Nine Months Ended September 30, 2017		2016	
Net income	\$22,112	\$27,449	\$61,411	\$66,133				
Other comprehensive income (loss), net of tax:								
Unrealized net holding gain (loss) on securities available-for-sale, net of federal income tax effect of \$380 and \$(1,174) for the three months ended September 30, 2017 and 2016, and \$2,551 and \$7,459 for the nine months ended September 30, 2017 and 2016, respectively	707	(2,182)	4,740	13,850				
Other comprehensive income (loss)	\$707	\$(2,182)	\$4,740	\$13,850				
Comprehensive income	\$22,819	\$25,267	\$66,151	\$79,983				

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, 2016	\$	—\$303,966	\$507,505	\$(82,473)	\$ (15,643)
Net income			66,133		
Other comprehensive income, net of tax					13,850
Dividends on common shares at \$2.82 per share			(43,461)		
Cash payment for fractional common shares in dividend reinvestment plan		(3)			
Share-based compensation expense		1,189			
Balance at September 30, 2016	\$	—\$305,152	\$530,177	\$(82,473)	\$ (1,793)
Balance at January 1, 2017	\$	—\$305,826	\$535,631	\$(81,472)	\$ (17,745)
Net income			61,411		
Other comprehensive income, net of tax					4,740
Dividends on common shares at \$2.82 per share			(43,411)		
Cash payment for fractional common shares in dividend reinvestment plan		(4)			
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 70,000 common shares to be held as treasury shares				(7,378)	
Share-based compensation expense		2,116			
Balance at September 30, 2017	\$	—\$307,143	\$553,434	\$(88,205)	