PARK NATIONAL CORP /OH/
Form 10-Q
October 27, 2015

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, 2015

Commission File Number 1-13006

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

Ohio (State or other jurisdiction of incorporation or organization)	31-1179518 (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 or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨

Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No ý

15,350,817 Common shares, no par value per share, outstanding at October 26, 2015.

PARK NATIONAL CORPORATION

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

	September 30, 2015	December 31, 2014
Assets:		
Cash and due from banks	$102,928	$133,511
Money market instruments	279,327	104,188
Cash and cash equivalents	382,255	237,699
Investment securities:		
Securities available-for-sale, at fair value (amortized cost of $1,282,022 and $1,299,980 at September 30, 2015 and December 31, 2014, respectively)	1,293,464	1,301,915
Securities held-to-maturity, at amortized cost (fair value of $119,585 and $143,490 at September 30, 2015 and December 31, 2014, respectively)	117,509	140,562
Other investment securities	58,311	58,311
Total investment securities	1,469,284	1,500,788
Loans	4,999,912	4,829,682
Allowance for loan losses	(58,483)	(54,352)
Net loans	4,941,429	4,775,330
Bank owned life insurance	180,739	171,928
Prepaid assets	82,949	75,190
Goodwill	72,334	72,334
Premises and equipment, net	59,581	55,479
Affordable housing tax credit investments	52,731	48,911
Other real estate owned	20,136	22,605
Accrued interest receivable	18,976	17,677
Mortgage loan servicing rights	8,812	8,613
Other	11,114	14,645
Total assets	$7,300,340	$7,001,199
Liabilities and Shareholders' Equity:		
Deposits:		
Noninterest bearing	$1,288,750	$1,269,296
Interest bearing	4,166,232	3,858,704
Total deposits	5,454,982	5,128,000
Short-term borrowings	278,324	276,980
Long-term debt	736,580	786,602
Subordinated notes	45,000	45,000
Unfunded commitments in affordable housing tax credit investments	21,339	16,629
Accrued interest payable	2,470	2,551
Other	45,842	48,896
Total liabilities	$6,584,537	$6,304,658
Shareholders' equity:		
Preferred shares (200,000 shares authorized; 0 shares issued)	$—	$—
Common shares (No par value; 20,000,000 shares authorized; 16,150,859 shares issued at September 30, 2015 and 16,150,888 shares issued at December 31, 2014)	303,805	303,104

Retained earnings	501,145	484,484
Treasury shares (810,189 shares at September 30, 2015 and 758,489 at December 31, 2014)	(81,718)	(77,439)
Accumulated other comprehensive loss, net of taxes	(7,429)	(13,608)
Total shareholders' equity	715,803	696,541
Total liabilities and shareholders’ equity	$7,300,340	$7,001,199

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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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,	
	2015	2014	2015	2014
Interest and dividend income:				
Interest and fees on loans	$57,680	$57,492	$169,555	$169,249
Interest and dividends on:				
Obligations of U.S. Government, its agencies and other securities	9,175	9,011	27,677	27,758
Other interest income	232	119	677	320
Total interest and dividend income	67,087	66,622	197,909	197,327
Interest expense:				
Interest on deposits:				
Demand and savings deposits	614	440	1,656	1,232
Time deposits	2,508	2,136	7,672	6,547
Interest on borrowings:				
Short-term borrowings	109	130	348	382
Long-term debt	6,141	7,207	18,468	21,416
Total interest expense	9,372	9,913	28,144	29,577
Net interest income	57,715	56,709	169,765	167,750
Provision for loan losses	2,404	4,501	5,648	1,016
Net interest income after provision for loan losses	55,311	52,208	164,117	166,734
Other income:				
Income from fiduciary activities	4,933	4,734	15,055	14,100
Service charges on deposit accounts	3,909	4,171	10,974	11,772
Other service income	3,251	2,450	8,577	6,895
Checkcard fee income	3,643	3,431	10,659	10,137
Bank owned life insurance income	1,574	1,420	4,538	3,708
ATM fees	648	654	1,840	1,884
OREO valuation adjustments	(718)	(935)	(1,273)	(2,026)
Gain on sale of OREO, net	243	2,149	1,429	5,458
Gain on commercial loans held for sale	—	—	756	—
Miscellaneous	2,708	1,322	5,700	3,787
Total other income	20,191	19,396	58,255	55,715

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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,	
	2015	2014	2015	2014
Other expense:				
Salaries	$21,692	$20,515	$63,669	$60,426
Employee benefits	6,721	5,728	17,135	17,017
Occupancy expense	2,469	2,339	7,429	7,628
Furniture and equipment expense	3,044	2,870	8,737	8,862
Data processing fees	1,383	1,281	3,847	3,516
Professional fees and services	5,424	6,934	15,701	21,385
Marketing	1,058	1,087	3,008	3,211
Insurance	1,399	1,396	4,222	4,310
Communication	1,245	1,304	3,809	3,940
State tax expense (income)	779	(350)	2,709	1,550
OREO expense	323	244	1,114	1,829
Miscellaneous	1,892	1,624	6,436	3,318
Total other expense	47,429	44,972	137,816	136,992
Income before income taxes	28,073	26,632	84,556	85,457
Federal income taxes	8,033	8,363	24,433	25,801
Net income	$20,040	$18,269	$60,123	$59,656
Earnings per Common Share:				
Basic	$1.30	$1.19	$3.91	$3.87
Diluted	$1.30	$1.19	$3.90	$3.87
Weighted average common shares outstanding				
Basic	15,361,087	15,392,421	15,370,380	15,395,320
Diluted	15,401,808	15,413,664	15,411,511	15,413,625
Cash dividends declared	$0.94	$0.94	$2.82	$2.82

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$20,040	$18,269	$60,123	$59,656
Other comprehensive income (loss), net of tax:				
Unrealized net holding gain (loss) on securities available-for-sale, net of income tax (benefit) of $3,528 and $(1,564) for the three months ended September 30, 2015 and 2014, and $3,328 and $11,369 for the nine months ended September 30, 2015 and 2014, respectively	6,551	(2,905)	6,179	21,115
Other comprehensive income (loss)	$6,551	$(2,905)	$6,179	$21,115
Comprehensive income	$26,591	$15,364	$66,302	$80,771

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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PARK NATIONAL CORPORATION AND SUBSIDIARIES
Consolidated Condensed Statements of Changes in Shareholders' Equity (Unaudited)
(in thousands, except per share data)

	Preferred Shares	Common Shares	Retained Earnings	Treasury Shares	Accumulated Other Comprehensive (Loss) Income
Balance at January 1, 2014, as previously presented	$—	$302,651	$460,643	$(76,128)	$(35,419)
Cumulative effect of change in accounting principle for low income housing tax credits, net of tax			(1,924)		
Balance, at January 1, 2014 - as adjusted	$—	$302,651	$458,719	$(76,128)	$(35,419)
Net Income			59,656		
Other comprehensive income, net of tax:					
Unrealized net holding gain on securities available-for-sale, net of income tax expense of $11,369					21,115
Dividends on common shares at $2.82 per share			(43,462)		
Cash payment for fractional shares in dividend reinvestment plan		(3)			
Share-based compensation expense		355			
Repurchase of treasury shares				(1,485)	
Balance at September 30, 2014	$—	$303,003	$474,913	$(77,613)	$(14,304)
Balance at January 1, 2015, as previously presented	$—	$303,104	$486,541	$(77,439)	$(13,608)
Cumulative effect of change in accounting principle for low income housing tax credits, net of tax			(2,057)		
Balance, at January 1, 2015 - as adjusted	$—	$303,104	$484,484	$(77,439)	$(13,608)
Net Income			60,123		
Other comprehensive income, net of tax:					
Unrealized net holding gain on securities available-for-sale, net of income tax of $3,328					6,179
Dividends on common shares at $2.82 per share			(43,462)		
Cash payment for fractional shares in dividend reinvestment plan		(3)			
Share-based compensation expense		704			
Repurchase of treasury shares				(4,279)	
Balance at September 30, 2015	$—	$303,805	$501,145	$(81,718)	$(7,429)

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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

	Nine Months Ended September 30, 2015		2014	
Operating activities:				
Net income	$60,123		$59,656	
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loan losses	5,648		1,016	
Amortization of loan fees and costs, net	4,921		2,815	
Depreciation	5,362		5,489	
Accretion of investment securities, net	(186	)	(129	)
Amortization of long-term debt prepayment penalty	4,522		3,681	
Realized net investment security gains	—		(20	)
Loan originations to be sold in secondary market	(163,764	)	(96,384	)
Proceeds from sale of loans in secondary market	160,593		93,335	
Gain on sale of loans in secondary market	(2,968	)	(1,906	)
Share-based compensation expense	704		355	
OREO valuation adjustments	1,273		2,026	
Gain on sale of OREO, net	(1,429	)	(5,458	)
Gain on sale of commercial loans held for sale	(756	)	—	
Bank owned life insurance income	(4,538	)	(3,708	)
Changes in assets and liabilities:				
Increase in other assets	(12,461	)	(12,950	)
Increase in other liabilities	(3,214	)	(5,024	)
Net cash provided by operating activities	$53,830		$42,794	
Investing activities:				
Proceeds from redemption of Federal Home Loan Bank stock	$—		$8,946	
Proceeds from the sale of:				
Available-for-sale securities	—		488	
Proceeds from calls and maturities of:				
Available-for-sale securities	198,418		71,968	
Held-to-maturity securities	29,148		31,712	
Purchases of:				
Available-for-sale securities	(180,273	)	(127,522	)
Held-to-maturity securities	(6,096	)	—	
Net increase in other investments	—		(1,350	)
Net loan originations, portfolio loans	(174,952	)	(181,197	)
Proceeds from commercial loans held for sale	900		—	
Investments in qualified affordable housing projects	(4,290	)	(8,184	)
Proceeds from the sale of OREO	15,189		26,622	
Purchases of bank owned life insurance	(10,045	)	—	
Life insurance death benefits	6,034		1,574	
Purchases of premises and equipment, net	(9,464	)	(4,865	)

Net cash used in investing activities	$(135,431)	$(181,808)

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

	Nine Months Ended September 30, 2015	2014
Financing activities:		
Net increase in deposits	$326,982	$339,010
Net increase in short-term borrowings	1,344	26,689
Repayment of long-term debt	(79,544)	(75,537)
Proceeds from issuance of long-term debt	25,000	50,000
Repurchase of treasury shares	(4,279)	(1,485)
Cash dividends paid on common shares	(43,346)	(43,407)
Net cash provided by financing activities	$226,157	$295,270
Increase in cash and cash equivalents	144,556	156,256
Cash and cash equivalents at beginning of year	237,699	147,030
Cash and cash equivalents at end of period	$382,255	$303,286
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$28,225	$29,674
Income taxes	$19,820	$18,620
Non-cash items:		
Loans transferred to OREO	$12,845	$7,825
Transfers from loans to commercial loans held for sale	$144	$21,985
New commitments in affordable housing tax credit investments	$9,000	$8,000

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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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 and nine month periods ended September 30, 2015 are not necessarily indicative of the operating results to be anticipated for the fiscal year ending December 31, 2015.

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 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, 2014 from Park’s 2014 Annual Report to Shareholders (“2014 Annual Report”). Certain prior period amounts have been reclassified to conform to the current period presentation. Additionally, prior period financial statements reflect the retrospective application of Accounting Standards Update ("ASU") 2014-01, Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects.

Park’s significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in Park’s 2014 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 – Recent Accounting Pronouncements

ASU 2014-01- Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force): In January 2014, the Financial Accounting Standards Board (the "FASB") issued ASU 2014-01, Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force). The ASU permits reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense. Additionally, a reporting entity should disclose information that enables users of its financial statements to understand the nature of its investments in qualified affordable housing projects, and the effect of the measurement of its investments in qualified affordable housing projects and the related tax credits on its financial position and results of operations. The new guidance became effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. Park adopted this guidance in the first quarter of 2015. The guidance was applied retrospectively to all prior periods presented. The adoption resulted in adjustments to reduce beginning retained earnings, other assets and the prior periods consolidated condensed statements of income. See Note 16 - Investment in Qualified Affordable Housing for further details.

ASU 2014-04 - Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force): In January 2014, FASB issued ASU 2014-04, Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force). The ASU clarifies when an in substance repossession or foreclosure occurs and a creditor is considered to have received physical possession of real estate property collateralizing a consumer mortgage loan. Specifically, the new ASU requires a creditor to reclassify a collateralized consumer mortgage loan to real estate property upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. Additional disclosures are required detailing the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgages collateralized by real estate property that are in the process of foreclosure. The new guidance is effective for annual periods, and interim reporting periods within those annual periods, beginning after

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December 15, 2014. The adoption of this guidance as of January 1, 2015 did not have a material impact on Park's consolidated financial statements, but resulted in additional disclosures. See Note 5 - Other Real Estate Owned ("OREO").

ASU 2014-09 - Revenue from Contracts with Customers (Topic 606): In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The 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. Management is currently evaluating the impact of the adoption of this guidance on Park's consolidated financial statements.

ASU 2014-11 - Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures: In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. The amendments in this ASU change the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The amendments also require two new disclosures. The first disclosure requires an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements. The second disclosure provides increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The accounting changes are effective for annual periods, and interim reporting periods within those annual periods, beginning after December 15, 2014. The disclosure for certain transactions accounted for as a sale is required to be presented for interim and annual periods beginning after December 15, 2014, with all other disclosure requirements required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. The adoption of this guidance as of January 1, 2015 did not have an impact on Park's consolidated financial statements, but resulted in additional disclosures. See Note 17 - Repurchase Agreement Borrowings.

ASU 2015-02 - Consolidation (Topic 810): Amendments to the Consolidation Analysis: In February 2015, the FASB issued ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The ASU amends the current consolidation guidance and affects both the variable interest entity and voting interest entity consolidation models. The new guidance is effective for annual reporting periods and interim reporting periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. Management is currently evaluating the impact of the adoption of this guidance on Park’s consolidated financial statements.

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Note 3 – Loans

The composition of the loan portfolio, by class of loan, as of September 30, 2015 and December 31, 2014 was as follows:

	September 30, 2015			December 31, 2014		
(In thousands)	Loan balance	Accrued interest receivable	Recorded investment	Loan balance	Accrued interest receivable	Recorded investment
Commercial, financial and agricultural *	$909,025	$3,478	$912,503	$856,535	$3,218	$859,753
Commercial real estate *	1,091,578	4,239	1,095,817	1,069,637	3,546	1,073,183
Construction real estate:						
SEPH commercial land and development	2,069	—	2,069	2,195	—	2,195
Remaining commercial	115,987	279	116,266	115,139	300	115,439
Mortgage	35,554	78	35,632	31,148	72	31,220
Installment	6,762	19	6,781	7,322	23	7,345
Residential real estate:						
Commercial	412,294	883	413,177	417,612	1,038	418,650
Mortgage	1,216,221	1,840	1,218,061	1,189,709	1,548	1,191,257
HELOC	213,488	755	214,243	216,915	803	217,718
Installment	24,297	79	24,376	27,139	97	27,236
Consumer	969,586	2,949	972,535	893,160	2,967	896,127
Leases	3,051	53	3,104	3,171	17	3,188
Total loans	$4,999,912	$14,652	$5,014,564	$4,829,682	$13,629	$4,843,311

* Included within 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 $10.3 million at September 30, 2015 and $9.4 million at December 31, 2014, which represented a net deferred income position in both periods.

Overdrawn deposit accounts of $1.7 million and $2.3 million have been reclassified to loans at September 30, 2015 and December 31, 2014, respectively, and are included in the commercial, financial and agricultural loan class above.

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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 September 30, 2015 and December 31, 2014:

(In thousands)	September 30, 2015 Nonaccrual loans	Accruing troubled debt restructurings	Loans past due 90 days or more and accruing	Total nonperforming loans
Commercial, financial and agricultural	$18,142	$ 1,015	$—	$ 19,157
Commercial real estate	14,565	3,097	—	17,662
Construction real estate:				
SEPH commercial land and development	2,045	—	—	2,045
Remaining commercial	5,746	247	—	5,993
Mortgage	28	91	—	119
Installment	126	113	—	239
Residential real estate:				
Commercial	23,787	583	—	24,370
Mortgage	19,529	9,915	469	29,913
HELOC	1,685	806	17	2,508
Installment	1,845	680	4	2,529
Consumer	3,497	654	1,065	5,216
Total loans	$90,995	$ 17,201	$1,555	$ 109,751

(In thousands)	December 31, 2014 Nonaccrual loans	Accruing troubled debt restructurings	Loans past due 90 days or more and accruing	Total nonperforming loans
Commercial, financial and agricultural	$18,826	$ 297	$ 229	$ 19,352
Commercial real estate	19,299	2,690	—	21,989
Construction real estate:				
SEPH commercial land and development	2,078	—	—	2,078
Remaining commercial	5,558	51	—	5,609
Mortgage	59	94	9	162
Installment	115	125	—	240
Residential real estate:				
Commercial	24,336	594	—	24,930
Mortgage	21,869	10,349	1,329	33,547
HELOC	1,879	630	9	2,518
Installment	1,743	779	—	2,522
Consumer	4,631	723	1,133	6,487
Total loans	$100,393	$ 16,332	$ 2,709	$ 119,434

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The following table provides additional information regarding those nonaccrual loans and accruing TDR loans that were individually evaluated for impairment and those collectively evaluated for impairment as of September 30, 2015 and December 31, 2014.

(In thousands)	September 30, 2015			December 31, 2014		
	Nonaccrual loans and accruing TDRs	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Nonaccrual loans and accruing TDRs	Loans individually evaluated for impairment	Loans collectively evaluated for impairment
Commercial, financial and agricultural	$19,157	$ 19,154	$ 3	$19,123	$ 19,106	$ 17
Commercial real estate	17,662	17,662	—	21,989	21,989	—
Construction real estate:						
SEPH commercial land and development	2,045	2,045	—	2,078	2,078	—
Remaining commercial	5,993	5,993	—	5,609	5,609	—
Mortgage	119	—	119	153	—	153
Installment	239	—	239	240	—	240
Residential real estate:						
Commercial	24,370	24,370	—	24,930	24,930	—
Mortgage	29,444	—	29,444	32,218	—	32,218
HELOC	2,491	—	2,491	2,509	—	2,509
Installment	2,525	—	2,525	2,522	—	2,522
Consumer	4,151	—	4,151	5,354	—	5,354
Total loans	$108,196	$ 69,224	$ 38,972	$116,725	$ 73,712	$ 43,013

All of the loans individually evaluated for impairment were evaluated using the fair value of the underlying collateral or the present value of expected future cash flows as the measurement method.

The following table presents loans individually evaluated for impairment by class of loan as of September 30, 2015 and December 31, 2014.

(In thousands)	September 30, 2015			December 31, 2014		
	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated	Unpaid principal balance	Recorded investment	Allowance for loan losses allocated
With no related allowance recorded:						
Commercial, financial and agricultural	$18,724	$4,758	$—	$30,601	$17,883	$—
Commercial real estate	12,285	12,044	—	27,923	20,696	—
Construction real estate:						
SEPH commercial land and development	10,835	2,045	—	11,026	2,078	—
Remaining commercial	2,242	1,263	—	1,427	391	—
Residential real estate:						
Commercial	23,940	22,264	—	25,822	23,352	—
With an allowance recorded:						

Commercial, financial and agricultural	18,573	14,396	2,495	1,251	1,223	981
Commercial real estate	5,618	5,618	488	1,310	1,293	262
Construction real estate:						
SEPH commercial land and development	—	—	—	—	—	—
Remaining commercial	4,730	4,730	2,118	5,218	5,218	1,812
Residential real estate:						
Commercial	2,225	2,106	637	1,578	1,578	605
Total	$99,172	$69,224	$5,738	$106,156	$73,712	$3,660

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Management's general practice is to proactively charge down loans individually evaluated for impairment to the fair value of the underlying collateral. At September 30, 2015 and December 31, 2014, there were $25.7 million and $32.4 million, respectively, of partial charge-offs on loans individually evaluated for impairment with no related allowance recorded and $4.3 million and $45,000, respectively, of partial charge-offs on loans individually evaluated for impairment that also had a specific reserve allocated.

The allowance for loan losses included specific reserves of $5.7 million and $3.7 million related to loans individually evaluated for impairment at September 30, 2015 and December 31, 2014, respectively. These loans with specific reserves had a recorded investment of $26.9 million and $9.3 million as of September 30, 2015 and December 31, 2014, respectively.

Interest income on loans individually evaluated for impairment is recognized on a cash basis only when Park expects to receive the entire recorded investment of the loan. The following table presents the average recorded investment and interest income recognized subsequent to impairment on loans individually evaluated for impairment as of and for the three and nine months ended September 30, 2015 and September 30, 2014:

	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
(In thousands)	Recorded investment as of September 30, 2015	Average recorded investment	Interest income recognized	Recorded investment as of September 30, 2014	Average recorded investment	Interest income recognized
Commercial, financial and agricultural	$19,154	$19,793	$35	$23,186	$18,764	$68
Commercial real estate	17,662	17,453	132	21,303	30,644	327
Construction real estate:						
SEPH commercial land and development	2,045	2,068	—	2,097	3,653	12
Remaining commercial	5,993	6,059	2	5,970	8,561	2
Residential real estate:						
Commercial	24,370	24,560	240	23,640	27,765	255
Consumer	—	—	—	35	68	—
Total	$69,224	$69,933	$409	$76,231	$89,455	$664

	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
(In thousands)	Recorded investment as of September 30, 2015	Average recorded investment	Interest income recognized	Recorded investment as of September 30, 2014	Average recorded investment	Interest income recognized
Commercial, financial and agricultural	$19,154	$19,056	$306	$23,186	$19,362	$204
Commercial real estate	17,662	17,857	418	21,303	35,458	862
Construction real estate:						
SEPH commercial land and development	2,045	2,073	8	2,097	4,130	134
Remaining commercial	5,993	5,771	13	5,970	9,587	56
Residential real estate:						
Commercial	24,370	24,784	768	23,640	29,632	825

Consumer	—	—	—	35	521	—
Total	$69,224	$69,541	$1,513	$76,231	$98,690	$2,081

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The following tables present the aging of the recorded investment in past due loans as of September 30, 2015 and December 31, 2014 by class of loan.

	September 30, 2015				
(In thousands)	Accruing loans past due 30-89 days	Past due nonaccrual loans and loans past due 90 days or more and accruing*	Total past due	Total current	Total recorded investment
Commercial, financial and agricultural	$213	$ 3,619	$ 3,832	$908,671	$ 912,503
Commercial real estate	917	796	1,713	1,094,104	1,095,817
Construction real estate:					
SEPH commercial land and development	—	2,043	2,043	26	2,069
Remaining commercial	40	84	124	116,142	116,266
Mortgage	77	8	85	35,547	35,632
Installment	81	78	159	6,622	6,781
Residential real estate:					
Commercial	257	18,292	18,549	394,628	413,177
Mortgage	10,064	9,295	19,359	1,198,702	1,218,061
HELOC	796	153	949	213,294	214,243
Installment	240	535	775	23,601	24,376
Consumer	9,716	3,109	12,825	959,710	972,535
Leases	—	—	—	3,104	3,104
Total loans	$22,401	$ 38,012	$ 60,413	$4,954,151	$ 5,014,564

* Includes $1.6 million of loans past due 90 days or more and accruing. The remaining are past due nonaccrual loans.

	December 31, 2014				
(in thousands)	Accruing loans past due 30-89 days	Past due nonaccrual loans and loans past due 90 days or more and accruing*	Total past due	Total current	Total recorded investment
Commercial, financial and agricultural	$6,482	$ 7,508	$ 13,990	$845,763	$ 859,753
Commercial real estate	808	8,288	9,096	1,064,087	1,073,183
Construction real estate:					
SEPH commercial land and development	—	2,068	2,068	127	2,195
Remaining commercial	166	77	243	115,196	115,439
Mortgage	39	68	107	31,113	31,220
Installment	21	25	46	7,299	7,345
Residential real estate:					
Commercial	250	19,592	19,842	398,808	418,650
Mortgage	11,146	10,637	21,783	1,169,474	1,191,257
HELOC	262	387	649	217,069	217,718
Installment	596	464	1,060	26,176	27,236
Consumer	11,304	3,818	15,122	881,005	896,127
Leases	—	—	—	3,188	3,188

Total loans	$31,074	$ 52,932	$ 84,006	$4,759,305	$ 4,843,311

* Includes $2.7 million of loans past due 90 days or more and accruing. The remaining are past due nonaccrual loans.

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Credit Quality Indicators

Management utilizes past due information as a credit quality indicator across the loan portfolio. Past due information as of September 30, 2015 and December 31, 2014 is included in the tables above. The past due information is the primary credit quality indicator within the following classes of loans: (1) mortgage loans and installment loans in the construction real estate segment; (2) mortgage loans, HELOC and installment loans in the residential real estate segment; and (3) consumer loans. The primary credit indicator for commercial loans is based on an internal grading system that grades all commercial loans on a scale from 1 to 8. Credit grades are continuously monitored by the responsible loan officer and adjustments are made when appropriate. A grade of 1 indicates little or no credit risk and a grade of 8 is considered a loss. Commercial loans that are pass-rated (graded an 1 through a 4) are considered to be of acceptable credit risk. Commercial loans graded a 5 (special mention) are considered to be watch list credits and a higher loan loss reserve percentage is allocated to these loans. Loans classified as special mention have potential weaknesses that require management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of Park’s credit position at some future date. Commercial loans graded 6 (substandard), also considered to be watch list credits, are considered to represent higher credit risk and, as a result, a higher loan loss reserve percentage is allocated to these loans. Loans classified as substandard are inadequately protected by the current sound worth and paying capacity of the obligor or the value of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that Park will sustain some loss if the deficiencies are not corrected. Commercial loans that are graded a 7 (doubtful) are shown as nonaccrual and Park generally charges these loans down to their fair value by taking a partial charge-off or recording a specific reserve. Loans classified as doubtful have all the weaknesses inherent in those classified as substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Certain 6-rated loans and all 7-rated loans are included within the impaired category. A loan is deemed impaired when management determines the borrower's ability to perform in accordance with the contractual loan agreement is in doubt. Any commercial loan graded an 8 (loss) is completely charged off.

The tables below present the recorded investment by loan grade at September 30, 2015 and December 31, 2014 for all commercial loans:

	September 30, 2015				
(In thousands)	5 Rated	6 Rated	Impaired	Pass-Rated	Recorded Investment
Commercial, financial and agricultural *	$8,734	$1,674	$19,157	$882,938	$912,503
Commercial real estate *	14,676	5,317	17,662	1,058,162	1,095,817
Construction real estate:					
SEPH commercial land and development	—	—	2,045	24	2,069
Remaining commercial	2,881	—	5,993	107,392	116,266
Residential real estate:					
Commercial	2,490	2,035	24,370	384,282	413,177
Leases	—	—	—	3,104	3,104
Total commercial loans	$28,781	$9,026	$69,227	$2,435,902	$2,542,936

* Included within commercial, financial and agricultural loans and commercial real estate loans is an immaterial amount of consumer loans that are not broken out by class.

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	December 31, 2014				
(In thousands)	5 Rated	6 Rated	Impaired	Pass-Rated	Recorded Investment
Commercial, financial and agricultural *	$1,874	$1,201	$19,123	$837,555	$859,753
Commercial real estate *	8,448	1,712	21,989	1,041,034	1,073,183
Construction real estate:					
SEPH commercial land and development	—	—	2,078	117	2,195
Remaining commercial	3,349	57	5,609	106,424	115,439
Residential real estate:					
Commercial	2,581	598	24,930	390,541	418,650
Leases	—	—	—	3,188	3,188
Total Commercial Loans	$16,252	$3,568	$73,729	$2,378,859	$2,472,408

* Included within commercial, financial and agricultural loans and commercial real estate loans is an immaterial amount of consumer loans that are not broken out by class.

Troubled Debt Restructurings ("TDRs")

Management classifies loans as TDRs when a borrower is experiencing financial difficulties and Park has granted a concession to the borrower as part of a modification or in the loan renewal process. In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of the borrower's debt in the foreseeable future without the modification. This evaluation is performed in accordance with the Company’s internal underwriting policy. Management’s policy is to modify loans by extending the term or by granting a temporary or permanent contractual interest rate below the market rate, not by forgiving debt. Certain loans which were modified during the three-month and nine-month periods ended September 30, 2015 and September 30, 2014 did not meet the definition of a TDR as the modification was a delay in a payment that was considered to be insignificant. Management considers a forbearance period of up to three months or a delay in payment of up to 30 days to be insignificant. TDRs may be classified as accruing if the borrower has been current for a period of at least six months with respect to loan payments and management expects that the borrower will be able to continue to make payments in accordance with the terms of the restructured note. Management reviews all accruing TDRs quarterly to ensure payments continue to be made in accordance with the modified terms.

Management reviews renewals/modifications of loans previously identified as TDRs to consider if it is appropriate to remove the TDR classification. If the borrower is no longer experiencing financial difficulty and the renewal/modification does not contain a concessionary interest rate or other concessionary terms, management considers the potential removal of the TDR classification. If deemed appropriate, the TDR classification is removed as the borrower has complied with the terms of the loan at the date of the renewal/modification and there was a reasonable expectation that the borrower would continue to comply with the terms of the loan subsequent to the date of the renewal/modification. The majority of these TDRs were originally considered restructurings in a prior year as a result of a renewal/modification with an interest rate that was not commensurate with the risk of the underlying loan at the time of the renewal/modification. The TDR classification was not removed on any loans during the three-month and nine-month periods ended September 30, 2015. During the three-month and nine-month periods ended September 30, 2014, Park removed the TDR classification on $0.9 million and $2.5 million of loans that met the requirements discussed above.

At September 30, 2015 and December 31, 2014, there were $41.9 million and $47.5 million, respectively, of TDRs included in the nonaccrual loan totals. At September 30, 2015 and December 31, 2014, $19.0 million and $15.7 million of these nonaccrual TDRs were performing in accordance with the terms of the restructured note. As of September 30, 2015 and December 31, 2014, there were $17.2 million and $16.3 million, respectively, of TDRs included in accruing loan totals. Management will continue to review the restructured loans and may determine it appropriate to move certain of the loans back to accrual status in the future.

At September 30, 2015 and December 31, 2014, Park had commitments to lend $3.3 million and $1.4 million, respectively, of additional funds to borrowers whose outstanding loan terms had been modified in a TDR.

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The specific reserve related to TDRs at September 30, 2015 and December 31, 2014 was $3.3 million and $2.4 million, respectively. Modifications made in 2014 and 2015 were largely the result of renewals and extending the maturity date of the loan at terms consistent with the original note. These modifications were deemed to be TDRs primarily due to Park's conclusion that the borrower would likely not have qualified for similar terms through another lender. Many of the modifications deemed to be TDRs were previously identified as impaired loans, and thus were also previously evaluated for impairment under Accounting Standards Codification (ASC) 310. Additional specific reserves of $212,000 and $1.2 million were recorded during the three-month and nine-month periods ended September 30, 2015, respectively, as a result of TDRs identified in 2015. Additional specific reserves of $258,000 and $537,000 were recoded during the three-month and nine-month periods ended September 30, 2014, respectively, as a result of TDRs identified in 2014.

The terms of certain other loans were modified during the nine-month periods ended September 30, 2015 and September 30, 2014 that did not meet the definition of a TDR. Modified substandard commercial loans which did not meet the definition of a TDR had a total recorded investment as of September 30, 2015 and September 30, 2014 of $245,000 and $443,000, respectively. The renewal/modification of these loans: (1) involved a renewal/modification of the terms of a loan to a borrower who was not experiencing financial difficulties, (2) resulted in a delay in a payment that was considered to be insignificant, or (3) resulted in Park obtaining additional collateral or guarantees that improved the likelihood of the ultimate collection of the loan such that the modification was deemed to be at market terms. Modified consumer loans which did not meet the definition of a TDR had a total recorded investment of $12.8 million and $17.6 million, as of September 30, 2015 and September 30, 2014, respectively. Many of these loans were to borrowers who were not experiencing financial difficulties but who were looking to reduce their cost of funds.

The following tables detail the number of contracts modified as TDRs during the three-month and nine-month periods ended September 30, 2015 and September 30, 2014, as well as the recorded investment of these contracts at September 30, 2015 and September 30, 2014. The recorded investment pre- and post-modification is generally the same due to the fact that Park does not typically provide for forgiveness of principal.

	Three Months Ended September 30, 2015			
(In thousands)	Number of Contracts	Accruing	Nonaccrual	Total Recorded Investment
Commercial, financial and agricultural	8	$245	$3,818	$4,063
Commercial real estate	5	—	1,512	1,512
Construction real estate:				
SEPH commercial land and development	—	—	—	—
Remaining commercial	1	196	—	196
Mortgage	—	—	—	—
Installment	—	—	—	—
Residential real estate:				
Commercial	1	200	—	200
Mortgage	9	—	748	748
HELOC	5	16	31	47
Installment	1	—	4	4
Consumer	61	51	412	463
Total loans	91	$708	$6,525	$7,233

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(In thousands)	Three Months Ended September 30, 2014			
	Number of Contracts	Accruing	Nonaccrual	Total Recorded Investment
Commercial, financial and agricultural	14	$776	$1,025	$1,801
Commercial real estate	2	—	622	622
Construction real estate:				
SEPH commercial land and development	—	—	—	—
Remaining commercial	—	—	—	—
Mortgage	—	—	—	—
Installment	—	—	—	—
Residential real estate:				
Commercial	2	—	312	312
Mortgage	11	508	356	864
HELOC	2	—	29	29
Installment	3	133	9	142
Consumer	87	415	344	759
Total loans	121	$1,832	$2,697	$4,529

Of those loans which were modified and determined to be a TDR during the three-month period ended September 30, 2015, $160,000 were on nonaccrual status as of December 31, 2014. Of those loans which were modified and determined to be a TDR during the three-month period ended September 30, 2014, $205,000 were on nonaccrual status as of December 31, 2013.

(In thousands)	Nine Months Ended September 30, 2015			
	Number of Contracts	Accruing	Nonaccrual	Total Recorded Investment
Commercial, financial and agricultural	33	$1,014	$5,168	$6,182
Commercial real estate	11	—	2,525	2,525
Construction real estate:				
SEPH commercial land and development	—	—	—	—
Remaining commercial	1	196	—	196
Mortgage	1	—	20	20
Installment	—	—	—	—
Residential real estate:				
Commercial	10	200	1,144	1,344
Mortgage	24	325	1,199	1,524
HELOC	21	242	105	347
Installment	4	—	36	36
Consumer	217	71	748	819
Total loans	322	$2,048	$10,945	$12,993

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(In thousands)	Nine Months Ended September 30, 2014 Number of Contracts	Accruing	Nonaccrual	Total Recorded Investment
Commercial, financial and agricultural	24	$776	$1,065	$1,841
Commercial real estate	8	—	905	905
Construction real estate:				
SEPH commercial land and development	—	—	—	—
Remaining commercial	2	—	207	207
Mortgage	—	—	—	—
Installment	—	—	—	—
Residential real estate:				
Commercial	4	—	333	333
Mortgage	31	749	1,104	1,853
HELOC	7	93	195	288
Installment	9	228	12	240
Consumer	246	726	460	1,186
Total loans	331	$2,572	$4,281	$6,853

Of those loans which were modified and determined to be a TDR during the nine-month period ended September 30, 2015, $1.0 million were on nonaccrual status as of December 31, 2014. Of those loans which were modified and determined to be a TDR during the nine-month period ended September 30, 2014, $1.0 million were on nonaccrual status as of December 31, 2013.

The following tables present the recorded investment in financing receivables which were modified as TDRs within the previous 12 months and for which there was a payment default during the three-month and nine-month periods ended September 30, 2015 and September 30, 2014, respectively. For these tables, a loan is considered to be in default when it becomes 30 days contractually past due under the modified terms. The additional allowance for loan loss resulting from the defaults on TDR loans was immaterial.

(In thousands)	Three Months Ended September 30, 2015		Three Months Ended September 30, 2014	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial, financial and agricultural	7	$821	3	$62
Commercial real estate	—	—	—	—
Construction real estate:				
SEPH commercial land and development	—	—	—	—
Remaining commercial	—	—	—	—
Mortgage	—	—	—	—
Installment	—	—	—	—
Residential real estate:				
Commercial	1	603	2	194
Mortgage	13	902	18	1,205
HELOC	—	—	1	166
Installment	1	28	2	115
Consumer	50	310	54	486
Leases	—	—	—	—

Total loans	72	$2,664	80	$2,228

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Of the $2.7 million in modified TDRs which defaulted during the three months ended September 30, 2015, $61,000 were accruing loans and $2.6 million were nonaccrual loans. Of the $2.2 million in modified TDRs which defaulted during the three months ended September 30, 2014, $160,000 were accruing loans and $2.1 million were nonaccrual loans.

	Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
(In thousands)	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial, financial and agricultural	7	$821	4	$111
Commercial real estate	—	—	—	—
Construction real estate:				
SEPH commercial land and development	—	—	—	—
Remaining commercial	—	—	—	—
Mortgage	—	—	—	—
Installment	—	—	—	—
Residential real estate:				
Commercial	1	603	2	194
Mortgage	13	902	21	1,354
HELOC	—	—	1	166
Installment	1	28	3	118
Consumer	55	356	65	564
Leases	—	—	—	—
Total loans	77	$2,710	96	$2,507

Of the $2.7 million in modified TDRs which defaulted during the nine months ended September 30, 2015, $61,000 were accruing loans and $2.6 million were nonaccrual loans. Of the $2.5 million in modified TDRs which defaulted during the nine months ended September 30, 2014, $261,000 were accruing loans and $2.2 million were nonaccrual loans.

Note 4 – Allowance for Loan Losses

The allowance for loan losses is that amount management believes is adequate to absorb probable incurred credit losses in the loan portfolio based on management’s evaluation of various factors including overall growth in the loan portfolio, an analysis of individual loans, prior and current loss experience, and current economic conditions. A provision for loan losses is charged to operations based on management’s periodic evaluation of these and other pertinent factors as discussed within Note 1 of the Notes to Consolidated Financial Statements included in Park’s 2014 Annual Report.

Management updates historical losses annually in the fourth quarter, or more frequently as deemed appropriate. With the inclusion of 2013 net charge-off information, management concluded that it was no longer appropriate to calculate the historical loss average with an even allocation across the five-year period. Rather than apply a 20% allocation to each year in the calculation of the historical annualized loss factor, management determined that it was appropriate to more heavily weight those years with higher losses in the historical loss calculation, given the continued uncertainty in the current economic environment. Specifically, rather than applying equal percentages to each year in the historical loss calculation, management applied more weight to the 2009-2011 periods compared to the 2012 and 2013 periods.

With the inclusion of 2014 net charge-off information in the fourth quarter of 2014, management extended the historical loss period to six years. Due to the same factors that management considered in 2013, management applied more weight to 2009 through 2011 periods compared to the 2012 through 2014 periods.

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The activity in the allowance for loan losses for the three and nine months ended September 30, 2015 and September 30, 2014 is summarized below.

Three Months Ended September 30, 2015							
(In thousands)	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							
Beginning balance	$12,124	$9,467	$8,670	$15,268	$11,898	$—	$57,427
Charge-offs	829	46	4	575	2,262	—	3,716
Recoveries	415	386	274	461	832	—	2,368
Net charge-offs/(recoveries)	414	(340)	(270)	114	1,430	—	1,348
Provision/(recovery)	1,549	(352)	50	(132)	1,289	—	2,404
Ending balance	$13,259	$9,455	$8,990	$15,022	$11,757	$—	$58,483

Three Months Ended September 30, 2014							
(In thousands)	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							
Beginning balance	$14,196	$11,062	$7,821	$14,519	$10,313	$—	$57,911
Charge-offs	874	463	11	623	2,014	—	3,985
Charge-offs upon transfer to held for sale	597	1,467	1,262	1,012	—	—	4,338
Recoveries	161	161	2,368	284	607	4	3,585
Net charge-offs/(recoveries)	1,310	1,769	(1,095)	1,351	1,407	(4)	4,738
Provision/(recovery)	136	1,136	(262)	1,678	1,817	(4)	4,501
Ending balance	$13,022	$10,429	$8,654	$14,846	$10,723	$—	$57,674

Nine Months Ended September 30, 2015							
(In thousands)	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							
Beginning balance	$10,719	$8,808	$8,652	$14,772	$11,401	$—	$54,352
Charge-offs	1,680	329	41	1,732	6,379	—	10,161
Recoveries	987	2,188	1,238	1,808	2,420	3	8,644
Net charge-offs/(recoveries)	693	(1,859)	(1,197)	(76)	3,959	(3)	1,517
Provision/(recovery)	3,233	(1,212)	(859)	174	4,315	(3)	5,648
Ending balance	$13,259	$9,455	$8,990	$15,022	$11,757	$—	$58,483

Nine Months Ended
September 30, 2014

(In thousands)	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							
Beginning balance	$14,218	$15,899	$6,855	$14,251	$8,245	$—	$59,468
Charge-offs	1,727	6,531	35	1,899	5,315	—	15,507
Charge-offs upon transfer to held for sale	597	1,467	1,262	1,012	—	—	4,338
Recoveries	755	4,074	8,342	1,877	1,981	6	17,035
Net charge-offs/(recoveries)	1,569	3,924	(7,045)	1,034	3,334	(6)	2,810
Provision/(recovery)	373	(1,546)	(5,246)	1,629	5,812	(6)	1,016
Ending balance	$13,022	$10,429	$8,654	$14,846	$10,723	$—	$57,674

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Loans collectively evaluated for impairment in the following tables include all performing loans at September 30, 2015 and December 31, 2014, as well as nonperforming loans internally classified as consumer loans. Nonperforming consumer loans are not typically individually evaluated for impairment, but receive a portion of the statistical allocation of the allowance for loan losses. Loans individually evaluated for impairment include all impaired loans internally classified as commercial loans at September 30, 2015 and December 31, 2014, which are evaluated for impairment in accordance with U.S. GAAP (see Note 1 of the Notes to Consolidated Financial Statements included in Park's 2014 Annual Report).

The composition of the allowance for loan losses at September 30, 2015 and December 31, 2014 was as follows:

	September 30, 2015						
(In thousands)	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							
Ending allowance balance attributed to loans:							
Individually evaluated for impairment	$2,495	$488	$2,118	$637	$—	$—	$5,738
Collectively evaluated for impairment	10,764	8,967	6,872	14,385	11,757	—	52,745
Total ending allowance balance	$13,259	$9,455	$8,990	$15,022	$11,757	$—	$58,483
Loan balance:							
Loans individually evaluated for impairment	$19,150	$17,651	$8,038	$24,349	$—	$—	$69,188
Loans collectively evaluated for impairment	889,875	1,073,927	152,334	1,841,951	969,586	3,051	4,930,724
Total ending loan balance	$909,025	$1,091,578	$160,372	$1,866,300	$969,586	$3,051	$4,999,912
Allowance for loan losses as a percentage of loan balance:							
Loans individually evaluated for impairment	13.03 %	2.76 %	26.35 %	2.62 %	— %	— %	8.29 %
Loans collectively evaluated for impairment	1.21 %	0.83 %	4.51 %	0.78 %	1.21 %	— %	1.07 %

Total	1.46 %	0.87 %	5.61 %	0.80 %	1.21 %	— %	1.17 %
Recorded investment:							
Loans individually evaluated for impairment	$19,154	$17,662	$8,038	$24,370	$—	$—	$69,224
Loans collectively evaluated for impairment	893,349	1,078,155	152,710	1,845,487	972,535	3,104	4,945,340
Total ending recorded investment	$912,503	$1,095,817	$160,748	$1,869,857	$972,535	$3,104	$5,014,564

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(In thousands)	December 31, 2014 Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for loan losses:							
Ending allowance balance attributed to loans:							
Individually evaluated for impairment	$981	$262	$1,812	$605	$—	$—	$3,660
Collectively evaluated for impairment	9,738	8,546	6,840	14,167	11,401	—	50,692
Total ending allowance balance	$10,719	$8,808	$8,652	$14,772	$11,401	$—	$54,352
Loan balance:							
Loans individually evaluated for impairment	$19,103	$21,978	$7,690	$24,905	$—	$—	$73,676
Loans collectively evaluated for impairment	837,432	1,047,659	148,114	1,826,470	893,160	3,171	4,756,006
Total ending loan balance	$856,535	$1,069,637	$155,804	$1,851,375	$893,160	$3,171	$4,829,682
Allowance for loan losses as a percentage of loan balance:							
Loans individually evaluated for impairment	5.14 %	1.19 %	23.56 %	2.43 %	— %	— %	4.97 %
Loans collectively evaluated for impairment	1.16 %	0.82 %	4.62 %	0.78 %	1.28 %	— %	1.07 %
Total	1.25 %	0.82 %	5.55 %	0.80 %	1.28 %	— %	1.13 %
Recorded investment:							
Loans individually evaluated for impairment	$19,106	$21,989	$7,687	$24,930	$—	$—	$73,712
Loans collectively evaluated for impairment	840,647	1,051,194	148,512	1,829,931	896,127	3,188	4,769,599
	$859,753	$1,073,183	$156,199	$1,854,861	$896,127	$3,188	$4,843,311

Total ending
recorded investment

Note 5 – Other Real Estate Owned ("OREO")

Management transfers a loan to OREO at the time that Park takes deed/title of the asset. The carrying amount of foreclosed properties held at September 30, 2015 and December 31, 2014 are listed below, as well as the recorded investment of loans secured by residential real estate properties for which formal foreclosure proceedings were in process at those dates.

(in thousands)	September 30, 2015	December 31, 2014
OREO:		
Commercial real estate	$8,342	$6,352
Construction real estate	8,225	11,281
Residential real estate	3,569	4,972
Total OREO	20,136	$22,605
Loans in process of foreclosure:		
Residential real estate	$1,996	$2,807

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Note 6 – Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings per common share for the three and nine months ended September 30, 2015 and 2014.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except share and per common share data)	2015	2014	2015	2014
Numerator:				
Net income available to common shareholders	$20,040	$18,269	$60,123	$59,656
Denominator:				
Denominator for basic earnings per common share (weighted average common shares outstanding)	15,361,087	15,392,421	15,370,380	15,395,320
Effect of dilutive performance-based restricted stock units	40,721	21,243	41,131	18,305
Denominator for diluted earnings per common share (weighted average common shares outstanding adjusted for the effect of dilutive performance-based restricted stock units)	15,401,808	15,413,664	15,411,511	15,413,625
Earnings per common share:				
Basic earnings per common share	$1.30	$1.19	$3.91	$3.87
Diluted earnings per common share	$1.30	$1.19	$3.90	$3.87

Park awarded 23,025 and 21,975 performance-based restricted stock units ("PBRSUs") to certain employees during the nine months ended September 30, 2015 and 2014, respectively. No PBRSUs were awarded during the three months ended September 30, 2015 and 2014. The PBRSUs vest based on service and performance conditions. The dilutive effect of the PBRSUs was the addition of 40,721 and 21,243 common shares for the three months ended September 30, 2015 and 2014, respectively, and 41,131 and 18,305 common shares for the nine months ended September 30, 2015 and 2014, respectively.

During the nine months ended September 30, 2015 and 2014, Park repurchased 41,500 and 19,500 common shares, respectively, to fund the PBRSUs. Park repurchased 20,000 common shares during the three months ended September 30, 2015 and no common shares were repurchased during the three months ended September 30, 2014.

Note 7 – Segment Information

The Corporation is a financial holding company headquartered in Newark, Ohio. The operating segments for the Corporation are its chartered national bank subsidiary, The Park National Bank (headquartered in Newark, Ohio) (“PNB”), SE Property Holdings, LLC (“SEPH”), and Guardian Financial Services Company (“GFSC”).

Management is required to disclose information about the different types of business activities in which a company engages and also information on the different economic environments in which a company operates, so that the users of the financial statements can better understand the company’s performance, better understand the potential for future cash flows, and make more informed judgments about the company as a whole. Park has three operating segments, as: (i) discrete financial information is available for each operating segment and (ii) the segments are aligned with internal reporting to Park’s Chief Executive Officer and President, who is the chief operating decision maker.

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	Operating Results for the three months ended September 30, 2015				
(In thousands)	PNB	GFSC	SEPH	All Other	Total
Net interest income	$55,972	$1,643	$65	$35	$57,715
Provision for (recovery of) loan losses	2,587	282	(465)	—	2,404
Other income	19,699	1	347	144	20,191
Other expense	43,144	726	1,456	2,103	47,429
Income (loss) before income taxes	$29,940	$636	$(579)	$(1,924)	$28,073
Federal income taxes (benefit)	9,233	242	(203)	(1,239)	8,033
Net income (loss)	$20,707	$394	$(376)	$(685)	$20,040
Assets (as of September 30, 2015)	$7,216,773	$36,517	$37,938	$9,112	$7,300,340

	Operating Results for the three months ended September 30, 2014				
(In thousands)	PNB	GFSC	SEPH	All Other	Total
Net interest income (expense)	$55,400	$1,838	$32	$(561)	$56,709
Provision for (recovery of) loan losses	6,527	425	(2,451)	—	4,501
Other income	18,415	—	892	89	19,396
Other expense	38,992	774	3,332	1,874	44,972
Income (loss) before income taxes	$28,296	$639	$43	$(2,346)	$26,632
Federal income taxes (benefit)	9,093	223	15	(968)	8,363
Net income (loss)	$19,203	$416	$28	$(1,378)	$18,269
Assets (as of September 30, 2014)	$6,913,425	$41,104	$53,025	$3,701	$7,011,255

	Operating Results for the nine months ended September 30, 2015				
(In thousands)	PNB	GFSC	SEPH	All Other	Total
Net interest income (expense)	$164,559	$5,014	$(37)	$229	$169,765
Provision for (recovery of) loan losses	7,329	1,086	(2,767)	—	5,648
Other income	56,431	2	1,434	388	58,255
Other expense	124,662	2,264	4,939	5,951	137,816
Income (loss) before income taxes	$88,999	$1,666	$(775)	$(5,334)	$84,556
Federal income taxes (benefit)	27,800	584	(271)	(3,680)	24,433
Net income (loss)	$61,199	$1,082	$(504)	$(1,654)	$60,123

	Operating Results for the nine months ended September 30, 2014				
(In thousands)	PNB	GFSC	SEPH	All Other	Total
Net interest income (expense)	$163,789	$5,679	$(261)	$(1,457)	$167,750
Provision for (recovery of) loan losses	8,070	1,014	(8,068)	—	1,016
Other income	53,027	1	2,605	82	55,715
Other expense	119,408	2,361	9,266	5,957	136,992
Income (loss) before income taxes	$89,338	$2,305	$1,146	$(7,332)	$85,457
Federal income taxes (benefit)	28,398	807	401	(3,805)	25,801
Net income (loss)	$60,940	$1,498	$745	$(3,527)	$59,656

The operating results of the Parent Company in the “All Other” column are used to reconcile the segment totals to the consolidated condensed statements of income for the three-month and nine-month periods ended September 30, 2015 and 2014. The reconciling amounts for consolidated total assets for the periods ended September 30, 2015 and 2014 consisted of the elimination of intersegment borrowings and the assets of the Parent Company which were not eliminated.

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Note 8 – Loans Held For Sale

Mortgage loans held for sale are carried at their fair value. At September 30, 2015 and December 31, 2014, respectively, Park had approximately $11.4 million and $5.3 million in mortgage loans held for sale. These amounts are included in loans on the consolidated condensed balance sheets and in residential real estate loan segments in Note 3 and Note 4. The contractual balance was $11.2 million and $5.2 million at September 30, 2015 and December 31, 2014, respectively. The gain expected upon sale was $172,000 and $80,000 at September 30, 2015 and December 31, 2014, respectively. None of these loans were 90 days or more past due or on nonaccrual status as of September 30, 2015 or December 31, 2014.

During the nine-month period ended September 30, 2015, Park transferred to held for sale and sold certain commercial loans previously held for investment, with a book balance of $144,000, and recognized a gain of $756,000. There were no commercial loans held for sale or sold during the three months ended September 30, 2015. There were $22.0 million of commercial loans held for sale at September 30, 2014. They were subsequently sold in the fourth quarter of 2014 for a net gain on sale of $1.9 million.

Note 9 – Investment Securities

The amortized cost and fair value of investment securities are shown in the following tables. Management performs a quarterly evaluation of investment securities for any other-than-temporary impairment. For the three-month and nine-month periods ended September 30, 2015 and 2014, there were no investment securities deemed to be other-than-temporarily impaired.

Investment securities at September 30, 2015, were as follows:

Securities Available-for-Sale (In thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$546,888	$260	$2,097	$545,051
U.S. Government sponsored entities' asset-backed securities	734,014	13,766	2,000	745,780
Other equity securities	1,120	1,513	—	2,633
Total	$1,282,022	$15,539	$4,097	$1,293,464

Securities Held-to-Maturity (In thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
U.S. Government sponsored entities' asset-backed securities	$111,415	$2,110	$82	$113,443
Obligations of states and political subdivisions	$6,094	$48	$—	$6,142
Total	$117,509	$2,158	$82	$119,585

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Securities with unrealized losses at September 30, 2015, were as follows:

	Unrealized loss position for less than 12 months		Unrealized loss position for 12 months or longer		Total	
(In thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Securities Available-for-Sale						
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$179,452	$548	$215,339	$1,549	$394,791	$2,097
U.S. Government sponsored entities' asset-backed securities	$—	$—	$121,059	$2,000	$121,059	$2,000
Total	$179,452	$548	$336,398	$3,549	$515,850	$4,097
Securities Held-to-Maturity						
U.S. Government sponsored entities' asset-backed securities	$—	$—	$7,899	$82	$7,899	$82

Investment securities at December 31, 2014, were as follows:

Securities Available-for-Sale (In thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$546,886	$11	$8,833	$538,064
U.S. Government sponsored entities' asset-backed securities	751,974	13,421	4,242	761,153
Other equity securities	1,120	1,578	—	2,698
Total	$1,299,980	$15,010	$13,075	$1,301,915

Securities Held-to-Maturity (In thousands)	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Estimated Fair Value
U.S. Government sponsored entities' asset-backed securities	$140,562	$3,088	$160	$143,490

Securities with unrealized losses at December 31, 2014, were as follows:

	Unrealized loss position for less than 12 months		Unrealized loss position for 12 months or longer		Total	
(In thousands)	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Securities Available-for-Sale						
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$119,913	$87	$388,140	$8,746	$508,053	$8,833
U.S. Government sponsored entities' asset-backed securities	73,276	136	170,430	4,106	243,706	4,242
Total	$193,189	$223	$558,570	$12,852	$751,759	$13,075
Securities Held-to-Maturity						

U.S. Government sponsored entities' asset-backed securities	$8,032	$148	$2,714	$12	$10,746	$160

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Management does not believe any of the unrealized losses at September 30, 2015 or December 31, 2014 represented other-than-temporary impairment. Should the impairment of any of these securities become other-than-temporary, the cost basis of the investment will be reduced and the resulting loss recognized within net income in the period the other-than-temporary impairment is identified.

Park’s U.S. Government sponsored entities' asset-backed securities consist of 15-year residential mortgage-backed securities and collateralized mortgage obligations.

The amortized cost and estimated fair value of investments in debt securities at September 30, 2015, are shown in the following table by contractual maturity or the expected call date, except for asset-backed securities, which are shown as a single total, due to the unpredictability of the timing of principal repayments.

Securities Available-for-Sale (In thousands)	Amortized cost	Fair value	Tax equivalent yield	
U.S. Treasury and sponsored entities' obligations:				
Due within one year	150,000	150,257	1.39	%
Due five through ten years	396,888	394,794	2.43	%
Total	$546,888	$545,051	2.14	%
U.S. Government sponsored entities' asset-backed securities:	$734,014	$745,780	2.31	%

Securities Held-to-Maturity (In thousands)	Amortized cost	Fair value	Tax equivalent yield	
Obligations of state and political subdivisions:				
Due five through ten years	$6,094	$6,142	5.03	%
Total	$6,094	$6,142	5.03	%
U.S. Government sponsored entities' asset-backed securities	$111,415	$113,443	3.49	%

The $545.1 million of Park’s securities shown at fair value in the above table as U.S. Treasury and sponsored entities' obligations are callable notes. These callable securities have final maturities of 2 to 7 years. Of the $545.1 million reported at September 30, 2015, $150.3 million were expected to be called. The remaining average life of the investment portfolio is estimated to be 5.2 years.

There were no sales of investment securities during the three-month and nine-month periods ended September 30, 2015 and the three-month period ended September 30, 2014. Securities with an amortized cost of $468,000 were sold at a gain of $20,000 during the nine-month period ended September 30, 2014.

Note 10 – Other Investment Securities

Other investment securities consist of stock investments in the Federal Home Loan Bank ("FHLB") and the Federal Reserve Bank ("FRB"). These restricted stock investments are carried at their redemption value.

(In thousands)	September 30, 2015	December 31, 2014
Federal Home Loan Bank stock	$50,086	$50,086
Federal Reserve Bank stock	8,225	8,225
Total	$58,311	$58,311

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Note 11 - Share-Based Compensation

The Park National Corporation 2013 Long-Term Incentive Plan (the "2013 Incentive Plan") was adopted by the Board of Directors of Park on January 28, 2013 and was approved by Park's shareholders at the Annual Meeting of Shareholders on April 22, 2013. The 2013 Incentive Plan makes equity-based awards and cash-based awards available for grant to participants in the form of incentive stock options, nonqualified stock options, stock appreciation rights, restricted common shares, restricted stock unit awards that may be settled in common shares, cash or a combination of the two, unrestricted common shares and cash-based awards. Under the 2013 Incentive Plan, 600,000 common shares are authorized to be issued and delivered in connection with grants under the 2013 Incentive Plan. The common shares to be issued and delivered under the 2013 Incentive Plan may consist of either common shares currently held or common shares subsequently acquired by Park as treasury shares, including common shares purchased in the open market or in private transactions. No awards may be made under the 2013 Incentive Plan after April 22, 2023. At September 30, 2015, 534,250 common shares were available for future grants under the 2013 Incentive Plan.

On January 24, 2014, the Compensation Committee of the Board of Directors of Park granted awards of an aggregate of 21,975 performance-based restricted stock units (“PBRSUs”) to certain employees of Park, which grants were effective on January 24, 2014. On January 2, 2015, the Compensation Committee of the Board of Directors of Park granted awards of an aggregate of 23,025 PBRSUs to certain employees of Park, which grants were effective on January 2, 2015. The number of PBRSUs earned or settled will depend on certain performance conditions and are also subject to service-based vesting.

Share-based compensation expense of $234,000 and $135,000 was recognized for the three-month periods ended September 30, 2015 and 2014, respectively. Share-based compensation expense of $704,000 and $355,000 was recognized for the nine-month periods ended September 30, 2015 and 2014, respectively. Park expects to recognize additional share-based compensation expense of approximately $885,000 through the first quarter of 2018 related to PBRSUs granted in 2014 and approximately $1.4 million through the first quarter of 2019 related to PBRSUs granted in 2015.

Note 12 – Pension Plan

Park has a noncontributory defined benefit pension plan covering substantially all of its employees. The plan provides benefits based on an employee’s years of service and compensation.

Park generally contributes annually an amount that can be deducted for federal income tax purposes using a different actuarial cost method and different assumptions from those used for financial reporting purposes. There were no pension plan contributions for the three-month and nine-month periods ended September 30, 2015 and 2014.

The following table shows the components of net periodic benefit income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014
Service cost	$1,342	$1,083	$4,026	$3,249
Interest cost	1,174	1,144	3,522	3,432
Expected return on plan assets	(2,855)	(2,717)	(8,565)	(8,151)
Amortization of prior service cost	4	5	12	15
Recognized net actuarial loss	159	—	477	—
Net periodic benefit income	$(176)	$(485)	$(528)	$(1,455)

Note 13 – Loan Servicing

Park serviced sold mortgage loans of $1.27 billion at each of September 30, 2015, December 31, 2014 and September 30, 2014. At September 30, 2015, $5.7 million of the sold mortgage loans were sold with recourse, compared to $7.0 million at December 31, 2014 and $7.6 million at September 30, 2014. Management closely monitors the delinquency rates on the mortgage loans sold with recourse. At September 30, 2015 and December 31, 2014, management had established reserves of $827,000 and $379,000, respectively, to account for expected loan repurchases.

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When Park sells mortgage loans with servicing rights retained, servicing rights are initially recorded at fair value. Park selected the "amortization method" as permissible within U.S. GAAP, whereby the servicing rights capitalized are amortized in proportion to and over the period of estimated future servicing income of the underlying loan. At the end of each reporting period, the carrying value of mortgage servicing rights ("MSRs") is assessed for impairment with a comparison to fair value. MSRs are carried at the lower of their amortized cost or fair value.

Activity for MSRs and the related valuation allowance follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014
Mortgage servicing rights:				
Carrying amount, net, beginning of period	$8,561	$8,662	$8,613	$9,013
Additions	476	275	1,283	713
Amortization	(436)	(421)	(1,266)	(1,249)
Changes in valuation allowance	211	116	182	155
Carrying amount, net, end of period	$8,812	$8,632	$8,812	$8,632
Valuation allowance:				
Beginning of period	$855	$992	$826	$1,031
Changes in valuation allowance	(211)	(116)	(182)	(155)
End of period	$644	$876	$644	$876

Servicing fees included in other service income were $0.8 million and $2.5 million for the three and nine months ended September 30, 2015, respectively. Servicing fees included in other service income were $0.8 million and $2.6 million for the three and nine months ended September 30, 2014, respectively.

Note 14 – Fair Value

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that Park uses to measure fair value are as follows:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that Park has the ability to access as of the measurement date.
- Level 2: Level 1 inputs for assets or liabilities that are not actively traded. Also consists of an observable market price for a similar asset or liability. This includes the use of "matrix pricing" to value debt securities absent the exclusive use of quoted prices.
- Level 3: Consists of unobservable inputs that are used to measure fair value when observable market inputs are not available. This could include the use of internally developed models, financial forecasting and similar inputs.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability between market participants at the balance sheet date. When possible, the Company looks to active and observable markets to price identical assets or liabilities. When identical assets and liabilities are not traded in active markets, the Company looks to observable market data for similar assets and liabilities. However, certain assets and liabilities are not traded in observable markets and Park must use other valuation methods to develop a fair value. The fair value of impaired loans is typically based on the fair value of the underlying collateral, which is estimated through third-party appraisals in accordance with Park's valuation requirements per its commercial and real estate loan policies.

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Assets and Liabilities Measured at Fair Value on a Recurring Basis:

The following table presents assets and liabilities measured at fair value on a recurring basis:

Fair Value Measurements at September 30, 2015 using:

(In thousands)	Level 1	Level 2	Level 3	Balance at September 30, 2015
Assets				
Investment securities:				
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$—	$545,051	$—	$545,051
U.S. Government sponsored entities' asset-backed securities	—	745,780	—	745,780
Equity securities	1,876	—	757	2,633
Mortgage loans held for sale	—	11,403	—	11,403
Mortgage IRLCs	—	195	—	195
Liabilities				
Fair value swap	$—	$—	$226	$226

Fair Value Measurements at December 31, 2014 using:

(In thousands)	Level 1	Level 2	Level 3	Balance at December 31, 2014
Assets				
Investment securities:				
Obligations of U.S. Treasury and other U.S. Government sponsored entities	$—	$538,064	$—	$538,064
U.S. Government sponsored entities' asset-backed securities	—	761,153	—	761,153
Equity securities	1,922	—	776	2,698
Mortgage loans held for sale	—	5,264	—	5,264
Mortgage IRLCs	—	70	—	70
Liabilities				
Fair value swap	$—	$—	$226	$226

There were no transfers between Level 1 and Level 2 during the nine months ended September 30, 2015 or 2014. Management's policy is to transfer assets or liabilities from one level to another when the methodology to obtain the fair value changes such that there are more or fewer unobservable inputs as of the end of the reporting period.

The following methods and assumptions were used by the Company in determining fair value of the financial assets and liabilities discussed above:

Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows.

Fair value swap: The fair value of the swap agreement entered into with the purchaser of the Visa Class B shares represents an internally developed estimate of the exposure based upon probability-weighted potential Visa litigation losses.

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Mortgage Interest Rate Lock Commitments (IRLCs): IRLCs are based on current secondary market pricing and are classified as Level 2.

Mortgage loans held for sale: Mortgage loans held for sale are carried at their fair value. Mortgage loans held for sale are estimated using security prices for similar product types and, therefore, are classified in Level 2.

The table below is a reconciliation of the beginning and ending balances of the Level 3 inputs for the three and nine months ended September 30, 2015 and 2014, for financial instruments measured on a recurring basis and classified as Level 3:

Level 3 Fair Value Measurements
Three months ended September 30, 2015 and 2014

(In thousands)	Equity Securities	Fair value swap
Balance, at July 1, 2015	$744	$(226)
Total gains/(losses)		
Included in earnings – realized	—	—
Included in earnings – unrealized	—	—
Included in other comprehensive income (loss)	13	—
Purchases, sales, issuances and settlements, other	—	—
Re-evaluation of fair value swap, recorded in other expense	—	—
Balance at September 30, 2015	$757	$(226)
Balance, at July 1, 2014	$747	$(135)
Total gains/(losses)		
Included in earnings – realized	—	—
Included in earnings – unrealized	—	—
Included in other comprehensive income (loss)	14	—
Purchases, sales, issuances and settlements, other	—	—
Re-evaluation of fair value swap	—	(91)
Balance at September 30, 2014	$761	$(226)

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Level 3 Fair Value Measurements
Nine months ended September 30, 2015 and 2014

(In thousands)	Equity Securities	Fair value swap
Balance, at January 1, 2015	$776	$(226)
Total gains/(losses)		
Included in earnings – realized	—	—
Included in earnings – unrealized	—	—
Included in other comprehensive income (loss)	(19)	—
Purchases, sales, issuances and settlements, other	—	—
Re-evaluation of fair value swap, recorded in other expense	—	—
Balance at September 30, 2015	$757	$(226)
Balance, at January 1, 2014	$759	$(135)
Total gains/(losses)		
Included in earnings – realized	—	—
Included in earnings – unrealized	—	—
Included in other comprehensive income (loss)	2	—
Purchases, sales, issuances and settlements, other	—	—
Re-evaluation of fair value swap	—	(91)
Balance at September 30, 2014	$761	$(226)

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis:

The following methods and assumptions were used by the Company in determining the fair value of assets and liabilities measured at fair value on a nonrecurring basis described below:

Impaired Loans: At the time a loan is considered impaired, it is valued at the lower of cost or fair value. Impaired loans carried at fair value have been partially charged-off or receive specific allocations of the allowance for loan losses. For collateral dependent loans, fair value is generally based on real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments result in a Level 3 classification of the inputs for determining fair value. Collateral is then adjusted or discounted based on management’s historical knowledge, changes in market conditions from the time of the valuation, and management’s expertise and knowledge of the client and client’s business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly. Additionally, updated independent valuations are obtained annually for all impaired loans in accordance with Company policy.

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Other Real Estate Owned (OREO): Assets acquired through or in lieu of loan foreclosure are initially recorded at fair value less costs to sell when acquired. The carrying value of OREO is not re-measured to fair value on a recurring basis, but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs. Fair value is based on recent real estate appraisals and is updated at least annually. These appraisals may utilize a single valuation approach or a combination of approaches including the comparable sales approach and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments result in a Level 3 classification of the inputs for determining fair value.

Appraisals for both collateral dependent impaired loans and OREO are performed by licensed appraisers. Appraisals are generally obtained to support the fair value of collateral. In general, there are three types of appraisals, real estate appraisals, income approach appraisals, and lot development loan appraisals, received by the Company. These are discussed below:

- Real estate appraisals typically incorporate measures such as recent sales prices for comparable properties. Appraisers may make adjustments to the sales prices of the comparable properties as deemed appropriate based on the age, condition or general characteristics of the subject property. Management generally applies a 15% discount to real estate appraised values which management expects will cover all disposition costs (including selling costs). This 15% discount is based on historical discounts to appraised values on sold OREO properties.

- Income approach appraisals typically incorporate the annual net operating income of the business divided by an appropriate capitalization rate, as determined by the appraiser. Management generally applies a 15% discount to income approach appraised values which management expects will cover all disposition costs (including selling costs).

- Lot development loan appraisals are typically performed using a discounted cash flow analysis. Appraisers determine an anticipated absorption period and a discount rate that takes into account an investor’s required rate of return based on recent comparable sales. Management generally applies a 6% discount to lot development appraised values, which is an additional discount above the net present value calculation included in the appraisal, to account for selling costs.

MSRs: MSRs are carried at the lower of cost or fair value. MSRs do not trade in active, open markets with readily observable prices. For example, sales of MSRs do occur, but precise terms and conditions typically are not readily available. As such, management, with the assistance of a third-party specialist, determines fair value based on the discounted value of the future cash flows estimated to be received. Significant inputs include the discount rate and assumed prepayment speeds. The calculated fair value is then compared to market values where possible to ascertain the reasonableness of the valuation in relation to current market expectations for similar products. Accordingly, MSRs are classified as Level 2.

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The following tables present assets and liabilities measured at fair value on a nonrecurring basis. Collateral dependent impaired loans are carried at fair value if they have been charged down to fair value or if a specific valuation allowance has been established. A new cost basis is established at the time a property is initially recorded in OREO. OREO properties are carried at fair value if a devaluation has been taken to the property's value subsequent to the initial measurement.

Fair Value Measurements at September 30, 2015 using:

(In thousands)	Level 1	Level 2	Level 3	Balance at September 30, 2015
Impaired loans recorded at fair value:				
Commercial real estate	$—	$—	$5,785	$5,785
Construction real estate:				
SEPH commercial land and development	—	—	2,045	2,045
Remaining commercial	—	—	2,696	2,696
Residential real estate	—	—	2,073	2,073
Total impaired loans recorded at fair value	$—	$—	$12,599	$12,599
Mortgage servicing rights	$—	$3,023	$—	$3,023
OREO:				
Commercial real estate	—	—	2,804	2,804
Construction real estate	—	—	4,354	4,354
Residential real estate	—	—	1,757	1,757
Total OREO	$—	$—	$8,915	$8,915

Fair Value Measurements at December 31, 2014 using:

(In thousands)	Level 1	Level 2	Level 3	Balance at December 31, 2014
Impaired loans recorded at fair value:				
Commercial real estate	$—	$—	$8,481	$8,481
Construction real estate:				
SEPH commercial land and development	—	—	2,078	2,078
Remaining commercial	—	—	3,483	3,483
Residential real estate	—	—	2,921	2,921
Total impaired loans recorded at fair value	$—	$—	$16,963	$16,963
Mortgage servicing rights	$—	$2,928	$—	$2,928
OREO:				
Commercial real estate	—	—	1,470	1,470
Construction real estate	—	—	6,473	6,473
Residential real estate	—	—	2,369	2,369
Total OREO	$—	$—	$10,312	$10,312

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The table below provides additional detail on those impaired loans which are recorded at fair value as well as the remaining impaired loan portfolio not included above. The remaining impaired loans consist of loans which are not collateral dependent as well as loans carried at cost as the fair value of the underlying collateral or the present value of expected future cash flows on each of the loans exceeded the book value for each respective credit.

	September 30, 2015			
(In thousands)	Recorded Investment	Prior Charge-Offs	Specific Valuation Allowance	Carrying Balance
Impaired loans recorded at fair value	$15,841	$11,837	$3,242	$12,599
Remaining impaired loans	53,383	18,147	2,496	50,887
Total impaired loans	$69,224	$29,984	$5,738	$63,486

	December 31, 2014			
(In thousands)	Recorded Investment	Prior Charge-Offs	Specific Valuation Allowance	Carrying Balance
Impaired loans recorded at fair value	$19,643	$19,731	$2,680	$16,963
Remaining impaired loans	54,069	12,749	980	53,089
Total impaired loans	$73,712	$32,480	$3,660	$70,052

The income from credit adjustments related to impaired loans carried at fair value during the three months ended September 30, 2015 and 2014 was $0.1 million and $0.2 million, respectively. The expense of credit adjustments related to impaired loans carried at fair value during the nine months ended September 30, 2015 and 2014 was $1.8 million and $2.3 million, respectively.

MSRs totaled $8.8 million at September 30, 2015. Of this $8.8 million MSR carrying balance, $3.0 million was recorded at fair value and included a valuation allowance of $0.6 million. The remaining $5.8 million was recorded at cost, as the fair value of the MSRs exceeded cost at September 30, 2015. At December 31, 2014, MSRs totaled $8.6 million. Of this $8.6 million MSR carrying balance, $2.9 million was recorded at fair value and included a valuation allowance of $0.8 million. The remaining $5.7 million was recorded at cost, as the fair value exceeded cost at December 31, 2014. The income related to MSRs carried at fair value during the three-month periods ended September 30, 2015 and 2014 was $211,000 and $116,000, respectively. The income related to MSRs carried at fair value during the nine-month periods ended September 30, 2015 and 2014 was $182,000 and $155,000, respectively.

Total OREO held by Park at September 30, 2015 and December 31, 2014 was $20.1 million and $22.6 million, respectively. Approximately 44% of OREO held by Park at September 30, 2015 and 46% at December 31, 2014 was carried at fair value due to fair value adjustments made subsequent to the initial OREO measurement. At September 30, 2015 and December 31, 2014, OREO held at fair value, less estimated selling costs, amounted to $8.9 million and $10.3 million, respectively. The net expense related to OREO fair value adjustments was $0.7 million and $0.9 million for the three-month periods ended September 30, 2015 and 2014, respectively, and $1.3 million and $2.0 million for the nine-month periods ended September 30, 2015 and 2014, respectively.

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The following tables present qualitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at September 30, 2015 and December 31, 2014:

September 30, 2015

(In thousands)	Fair Value	Valuation Technique	Unobservable Input(s)	Range (Weighted Average)
Impaired loans:				
Commercial real estate	$5,785	Sales comparison approach	Adj to comparables	0.0% - 68.0% (25.8%)
		Bulk sale approach	Discount rate	8.0% (8.0%)
		Income approach	Capitalization rate	8.0% - 13.3% (10.2%)
		Cost approach	Accumulated depreciation	23.0% - 50.0% (42.1%)
Construction real estate:				
SEPH commercial land and development	$2,045	Sales comparison approach	Adj to comparables	5.0% - 40.0% (22.1%)
		Bulk sale approach	Discount rate	10.7% (10.7%)
Remaining commercial	$2,696	Sales comparison approach	Adj to comparables	0.0% - 67.0% (13.1%)
		Bulk sale approach	Discount rate	10.0% - 20.0% (13.7%)
Residential real estate	$2,073	Sales comparison approach	Adj to comparables	0.0% - 61.8% (13.6%)
		Income approach	Capitalization rate	3.8% - 10.1% (9.1%)
		Cost approach	Accumulated depreciation	33.3% - 50.0% (42.5%)
Other real estate owned:				
Commercial real estate	$2,804	Sales comparison approach	Adj to comparables	5.0% - 71.0% (27.1%)
		Income approach	Capitalization rate	9.5% (9.5%)
Construction real estate	$4,354	Sales comparison approach	Adj to comparables	0.0% - 54.7% (21.2%)
		Income approach	Capitalization rate	15.0% (15.0%)
Residential real estate	$1,757	Sales comparison approach	Adj to comparables	0.0% - 45.6% (11.8%)

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Balance at December 31, 2014

(In thousands)	Fair Value	Valuation Technique	Unobservable Input(s)	Range (Weighted Average)
Impaired loans:				
Commercial real estate	$8,481	Sales comparison approach	Adj to comparables	0.0% - 84.0% (38.8%)
		Income approach	Capitalization rate	8.0% - 9.5% (9.4%)
		Cost approach	Accumulated depreciation	23.0% (23.0%)
Construction real estate:				
SEPH commercial land and development	$2,078	Sales comparison approach	Adj to comparables	5.0% - 35.0% (17.5%)
		Bulk sale approach	Discount rate	10.8% (10.8%)
Remaining commercial	$3,483	Sales comparison approach	Adj to comparables	0.2% - 76.0% (45.4%)
		Bulk sale approach	Discount rate	10.0% - 22.0% (16.5%)
Residential real estate	$2,921	Sales comparison approach	Adj to comparables	0.0% - 120.6% (11.1%)
		Income approach	Capitalization rate	7.9% - 10.0% (8.0%)
Other real estate owned:				
Commercial real estate	$1,470	Sales comparison approach	Adj to comparables	0.0% - 87.0% (30.5%)
		Income approach	Capitalization rate	8.4% - 10.0% (9.4%)
		Cost approach	Accumulated depreciation	60.0% - 95.0% (77.5%)
Construction real estate	$6,473	Sales comparison approach	Adj to comparables	0.0% - 82.9% (27.1%)
		Bulk sale approach	Discount rate	15.0% (15.0%)
Residential real estate	$2,369	Sales comparison approach	Adj to comparables	0.0% - 38.3% (10.1%)
		Income approach	Capitalization rate	6.8% - 7.8% (7.6%)

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The following methods and assumptions were used by Park in estimating its fair value disclosures for assets and liabilities not discussed above:

Cash and cash equivalents: The carrying amounts reported in the consolidated condensed balance sheets for cash and short-term instruments approximate those assets' fair values.

FHLB Stock and FRB Stock: These assets are carried at their respective redemption values as it is not practicable to calculate their fair values.

Loans receivable: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair values for certain mortgage loans (e.g., one-to-four family residential) are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. The fair values for other loans are estimated using discounted cash flow analyses, based upon interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. The methods utilized to estimate the fair value do not necessarily represent an exit price.

Off-balance sheet instruments: Fair values for Park's loan commitments and standby letters of credit are based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The carrying amount and fair value are not material.

Deposit liabilities: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts for variable-rate, fixed-term certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities of time deposits.

Short-term borrowings: The carrying amounts of federal funds purchased, borrowings under repurchase agreements and other short-term borrowings approximate their fair values.

Long-term debt: Fair values for long-term debt are estimated using a discounted cash flow calculation that applies interest rates currently being offered on long-term debt to a schedule of monthly maturities.

Subordinated debentures and notes: