PARK NATIONAL CORP /OH/
Form 10-Q
May 04, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

S QUARTERLY REPORT PURSUANT TO SECTION 13 OR

15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2012

OR

£ TRANSITION REPORT PURSUANT TO SECTION 13 OR

15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 1-13006

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

Ohio	31-1179518
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

50 North Third Street, Newark, Ohio 43055
(Address of principal executive offices) (Zip Code)

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

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x 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 x 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	x	Accelerated filer	¨
Non-accelerated filer (Do not check if a smaller reporting company)	¨	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 x

15,405,902 Common shares, no par value per share, outstanding at May 3, 2012.

PARK NATIONAL CORPORATION

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PARK NATIONAL CORPORATION

Consolidated Condensed Balance Sheets (Unaudited)

(in thousands, except share and per share data)

	March 31, 2012	December 31, 2011
Assets:		
Cash and due from banks	$121,730	$137,770
Money market instruments	39,400	19,716
Cash and cash equivalents	161,130	157,486
Investment securities		
Securities available-for-sale, at fair value (amortized cost of $991,373 and $801,147 at March 31, 2012 and December 31, 2011)	1,007,481	820,645
Securities held-to-maturity, at amortized cost (fair value of $795,075 and $834,574 at March 31, 2012 and December 31, 2011)	782,250	820,224
Other investment securities	67,604	67,604
Total investment securities	1,857,335	1,708,473
Loans	4,324,383	4,317,099
Allowance for loan losses	(59,758)	(68,444)
Net loans	4,264,625	4,248,655
Bank owned life insurance	157,225	154,567
Goodwill and other intangible assets	73,089	74,843
Bank premises and equipment, net	52,157	53,741
Other real estate owned	41,965	42,272
Accrued interest receivable	21,227	19,697
Mortgage loan servicing rights	8,975	9,301
Other	139,123	120,748
Assets held for sale	-	382,462
Total assets	$6,776,851	$6,972,245
Liabilities and Stockholders' Equity:		
Deposits:		
Noninterest bearing	$1,055,745	$995,733
Interest bearing	3,761,643	3,469,381
Total deposits	4,817,388	4,465,114
Short-term borrowings	236,687	263,594
Long-term debt	821,801	823,182
Subordinated debentures and notes	75,250	75,250
Accrued interest payable	5,034	4,916
Other	64,262	61,639
Liabilities held for sale	-	536,186
Total liabilities	6,020,422	6,229,881

COMMITMENTS AND CONTINGENCIES		
Stockholders' equity:		
Preferred stock (200,000 shares authorized; 100,000 shares issued with $1,000 per share liquidation preference)	98,372	98,146
Common stock (No par value; 20,000,000 shares authorized; 16,151,014 shares issued at March 31, 2012 and 16,151,021 shares issued at December 31, 2011)	301,201	301,202
Common stock warrants	4,297	4,297
Retained earnings	440,074	424,557
Treasury stock (745,109 shares at March 31, 2012 and 745,109 shares at December 31,2011)	(77,007)	(77,007)
Accumulated other comprehensive (loss), net of taxes	(10,508)	(8,831)
Total stockholders' equity	756,429	742,364
Total liabilities and stockholders’ equity	$6,776,851	$6,972,245

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

PARK NATIONAL CORPORATION

Consolidated Condensed Statements of Income (Unaudited)

(in thousands, except share and per share data)

	Three Months Ended March 31,	
	2012	2011
Interest and dividend income:		
Interest and fees on loans	$61,105	$65,454
Interest and dividends on:		
Obligations of U.S. Government, its agencies and other securities	13,584	19,053
Obligations of states and political subdivisions	46	149
Other interest income	103	6
Total interest and dividend income	74,838	84,662
Interest expense:		
Interest on deposits:		
Demand and savings deposits	754	991
Time deposits	4,639	6,734
Interest on borrowings:		
Short-term borrowings	175	267
Long-term debt	7,542	7,357
Total interest expense	13,110	15,349
Net interest income	61,728	69,313
Provision for loan losses	9,000	14,100
Net interest income after provision for loan losses	52,728	55,213
Other income:		
Income from fiduciary activities	3,828	3,722
Service charges on deposit accounts	4,071	4,245
Other service income	2,734	2,301
Checkcard fee income	3,172	2,976
Bank owned life insurance income	1,202	1,229
ATM fees	608	654

OREO devaluations	(1,359)	(2,535)
Gain on sale of the Vision business	22,167	-
Other	3,197	2,438
Total other income	39,620	15,030
Gain on sale of securities	-	6,635

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PARK NATIONAL CORPORATION

Consolidated Condensed Statements of Income (Unaudited) (Continued)

(in thousands, except share and per share data)

	Three Months Ended March 31,	
	2012	2011
Other expense:		
Salaries and employee benefits	$24,823	$25,064
Occupancy expense	2,670	3,000
Furniture and equipment expense	2,621	2,657
Data processing fees	1,200	1,253
Professional fees and services	5,581	4,874
Amortization of intangibles	1,754	669
Marketing	843	623
Insurance	1,490	2,269
Communication	1,537	1,556
Other expense	5,289	4,381
Total other expense	47,808	46,346
Income before income taxes	44,540	30,532
Income taxes	13,065	8,336
Net income	$31,475	$22,196
Preferred stock dividends and accretion	1,477	1,464
Net income available to common shareholders	$29,998	$20,732
Per Common Share:		
Net income available to common shareholders		
Basic	$1.95	$1.35
Diluted	$1.95	$1.35
Weighted average common shares outstanding		
Basic	15,405,910	15,398,930
Diluted	15,417,745	15,403,420
Cash dividends declared	$0.94	$0.94

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

PARK NATIONAL CORPORATION

Consolidated Condensed Statements of Comprehensive Income (Unaudited)

(in thousands, except share and per share data)

	Three Months Ended March 31,	
	2012	2011
Net income	**$31,475**	$22,196
Other comprehensive income, net of tax:		
Change in funded status of pension plan, net of income taxes of $222	**412**	-
Unrealized net holding gain on cash flow hedge,net of income taxes of $60 and $71	**113**	133
Unrealized net holding (loss) on securities available-for-sale, net of income tax benefit of $(1,188) and $(3,431)	**(2,202)**	(6,371)
Other comprehensive loss	**$(1,677)**	$(6,238)
Comprehensive income	**$29,798**	$15,958

SEE ACCOMPANYING NOTES TO UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

PARK NATIONAL CORPORATION

Consolidated Condensed Statements of Changes in Stockholders' Equity (Unaudited)

(in thousands, except per share data)

Three Months ended March 31, 2012 and 2011	Preferred Stock	Common Stock	Retained Earnings	Treasury Stock at Cost	Accumulated Other Comprehensive Income
Balance at December 31, 2010	$97,290	$305,677	$406,342	$(77,733)	$ (1,868)
Net Income			22,196		
Other comprehensive loss, net of tax:					
Unrealized net holding gain on cash flow hedge, net of income taxes of $71					133
Unrealized net holding (loss) on securities available-for-sale, net of income tax benefit of $(3,431)					(6,371)
Cash dividends on common stock at $0.94 per share			(14,475)		
Cash payment for fractional shares in dividend reinvestment plan		(1)			
Accretion of discount on preferred stock	214		(214)		
Preferred stock dividends			(1,250)		
Balance at March 31, 2011	$97,504	$305,676	$412,599	$(77,733)	$ (8,106)
Balance at December 31, 2011	**$98,146**	**$305,499**	**$424,557**	**$(77,007)**	**$ (8,831)**
Net Income			**31,475**		
Other comprehensive loss, net of tax:					
Change in funded status of pension plan, net of income taxes of $222					**412**
Unrealized net holding gain on cash flow hedge, net of income taxes of $60					**113**
Unrealized net holding (loss) on securities available-for-sale, net of income tax benefit of $(1,188)					**(2,202)**
Cash dividends on common stock at $0.94 per share			**(14,481)**		
Cash payment for fractional shares in dividend reinvestment plan		**(1)**			
Accretion of discount on preferred stock	**226**		**(227)**		
Preferred stock dividends			**(1,250)**		
Balance at March 31, 2012	**$98,372**	**$305,498**	**$440,074**	**$(77,007)**	**$ (10,508)**

SEE ACCOMPANYING NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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PARK NATIONAL CORPORATION

Consolidated Condensed Statements of Cash Flows (Unaudited)

(in thousands)

	Three Months Ended March 31,	
	2012	2011
Operating activities:		
Net income	$31,475	$22,196
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, accretion and amortization	1,470	2,784
Provision for loan losses	9,000	14,100
Amortization of core deposit intangibles	1,754	669
Realized net investment security gains	-	(6,635)
OREO devaluations	1,359	2,535
Bank owned life insurance income	(1,202)	(1,229)
Changes in assets and liabilities:		
(Increase) in other assets	(19,773)	(19,547)
Increase (Decrease) in other liabilities	2,854	(6,539)
Net cash provided by operating activities	$26,937	$8,334
Investing activities:		
Proceeds from sales of available-for-sale securities	$-	$113,105
Proceeds from maturity of:		
Available-for-sale securities	229,878	75,071
Held-to-maturity securities	157,101	59,506
Purchases of:		
Available-for-sale securities	(419,998)	(231,714)
Held-to-maturity securities	(119,127)	-
Net (increase) in loans	(23,339)	(25,403)
Sale of assets/liabilities related to Vision Bank	(153,724)	-
Purchases of bank owned life insurance	(2,213)	(3,000)
Purchases of premises and equipment, net	(125)	(1,990)
Net cash (used in) investing activities	$(331,547)	$(14,425)
Financing activities:		
Net increase in deposits	$352,274	$219,258

Net (decrease) in short-term borrowings	(26,907)	(346,950)
Proceeds from issuance of long-term debt	-	150,000
Repayment of long-term debt	(1,381)	(24)
Cash payment for fractional shares in dividend reinvestment plan	(1)	(1)
Cash dividends paid on common and preferred stock	(15,731)	(15,725)
Net cash provided by financing activities	$308,254	$6,558
Increase in cash and cash equivalents	3,644	467
Cash and cash equivalents at beginning of year	157,486	133,780
Cash and cash equivalents at end of period	$161,130	$134,247
Supplemental disclosures of cash flow information:		
Cash paid for:		
Interest	$12,992	$15,217
Income taxes	$-	$-
Non cash activities:		
Securities acquired through payable	$-	$25,000

SEE ACCOMPANYING NOTES TO THE UNAUDITED CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

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 (the "Registrant", "Corporation", "Company", or "Park") and its subsidiaries. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of results of operations for the interim periods included herein have been made. The results of operations for the three month period ended March 31, 2012 are not necessarily indicative of the operating results to be anticipated for the fiscal year ending December 31, 2012.

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 stockholders' equity and condensed statements of cash flows in conformity with U.S. generally accepted accounting principles ("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, 2011 from Park's 2011 Annual Report to Shareholders ("2011 Annual Report").

Park's significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in Park's 2011 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. Management has evaluated events occurring subsequent to the balance sheet date, determining no events require additional disclosure in these consolidated condensed financial statements, with the exception of the subsequent events discussed in Note 20 of these Notes to Consolidated Condensed Financial Statements.

Note 2 – Recent Accounting Pronouncements

Adoption of New Accounting Pronouncements:

No. 2011-04 – Fair Value Measurement (Topic 820) Amendments to Achieve Common Fair Value Measurement and Disclosure Requirement in U.S. GAAP and IFRSs: In May 2011, FASB issued Accounting Standards Update 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirement in U.S. GAAP and IFRSs* (ASU 2011-04*).* The new guidance in this ASU results in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Certain amendments clarify FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. These amendments also enhance disclosure requirements surrounding fair value measurement. Most significantly, an entity is required to disclose additional information regarding Level 3 fair value measurements including quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements. The new guidance is effective for interim and annual periods beginning on or after December 15, 2011. The adoption of the new guidance on January 1, 2012 impacted the fair value disclosures in Note 16.

No. 2011-05 – Presentation of Comprehensive Income: In June 2011, FASB issued Accounting Standards Update 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05). The ASU eliminates the option to report other comprehensive income and its components in the statement of changes in equity. An entity can elect to present the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The ASU does not change the items that must be reported in other comprehensive income, when an item of other comprehensive income must be reclassified to net income, or how earnings per share is calculated or presented. The new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and must be applied retrospectively. The adoption of the new guidance impacted the presentation of the consolidated financial statements.

No. 2011-08 – Intangibles – Goodwill and Other: In September 2011, FASB issued Accounting Standards Update 2011-08, *Intangibles – Goodwill and Other* (ASU 2011-08). The ASU allows an entity to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The new guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Management does not expect the adoption of this guidance will have an impact on the consolidated financial statements.

No. 2011-12 Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05: In December 2011, FASB issued Accounting Standards Update 2011-12, *Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05* (ASU 2011-12). This ASU defers only those changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. Entities are to continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. The other requirements in ASU 2011-05 are not affected by this ASU.

Note 3 – Sale of Vision Bank Business

On February 16, 2012, Park and its wholly-owned subsidiary, Vision Bank ("Vision"), a Florida state-chartered bank, completed their sale of substantially all of the performing loans, operating assets and liabilities associated with Vision to Centennial Bank ("Centennial"), an Arkansas state-chartered bank which is a wholly-owned subsidiary of Home BancShares, Inc. ("Home"), an Arkansas corporation, as contemplated by the previously announced Purchase and Assumption Agreement by and between Park, Vision, Home and Centennial, dated as of November 16, 2011, as amended by the First Amendment to Purchase and Assumption Agreement, dated as of January 25, 2012 (the "Agreement") for a purchase price of $27.9 million.

The assets purchased and liabilities assumed by Centennial as of February 16, 2012, included the following:

(in thousands)	February 16, 2012
Assets sold	
Cash and due from banks	$ 20,711
Loans	355,750
Allowance for loan losses	(13,100)
Net loans	342,650

Fixed assets		12,496
Other assets		4,612
Total assets sold	$	380,469
Liabilities sold		
Deposits	$	522,856
Other liabilities		2,049
Total liabilities sold	$	524,905

Subsequent to the transactions contemplated by the Agreement, Vision was left with approximately $22 million of performing loans (including mortgage loans held for sale) and non-performing loans with a fair value of $88 million. Park recorded a pre-tax gain, net of expenses directly related to the sale, of $22.2 million, resulting from the transactions contemplated by the Agreement. The pre-tax gain, net of expense is provided in the table below:

(in thousands)	
Premium paid	$27,913
One-time gains	298
Loss on sale of fixed assets	(2,434)
Employment and severance agreements	(1,610)
Other one-time charges, including estimates	(2,000)
Pre-tax gain	$22,167

Promptly following the closing of the transactions contemplated by the Agreement, Vision surrendered its Florida banking charter to the Florida Office of Financial Regulation and became a non-bank Florida corporation (the "Florida Corporation"). The Florida Corporation merged with and into a wholly-owned, non-bank subsidiary of Park, SE Property Holdings, LLC ("SE LLC"), with SE LLC being the surviving entity.

The balance sheet of SE LLC as of March 31, 2012 was as follows:

(in thousands)	March 31, 2012
Assets	
Cash	$ 16,049
Performing loans	16,123
Nonperforming loans	82,326
OREO	28,578
Other assets	18,417
Total assets	$ 161,493
Liabilities and equity	
Intercompany borrowings	$ 140,000
Other liabilities	4,623
Equity	16,870
Total liabilities and equity	$ 161,493

Note 4 – Goodwill and Intangible Assets

The following table shows the activity in goodwill and core deposit intangibles for the first three months of 2012.

(in thousands)	Goodwill	Core Deposit Intangibles	Total
December 31, 2011	$ 72,334	$ 2,509	$ 74,843
Amortization	-	1,754	1,754
March 31, 2012	$ 72,334	$ 755	$ 73,089

The core deposit intangibles are being amortized to expense principally on the straight-line method, over a period of six years. The amortization period for the core deposit intangibles related to Vision was accelerated due to the February 16, 2012 acquisition of Vision branches by Centennial Bank. Management expects that the core deposit intangibles amortization expense will be approximately $139,000 for each of the remaining quarters of 2012.

Core deposit intangibles amortization expense is projected to be as follows for the remainder of 2012 and for each of the following years:

(in thousands)	Annual Amortization
Remainder of 2012	$ 418
2013	337
2014	-
Total	$ 755

Note 5 – Loans

The composition of the loan portfolio, by class of loan, as of March 31, 2012 and December 31, 2011 was as follows:

	March 31, 2012			December 31, 2011		
(In thousands)	Loan balance	Accrued interest receivable	Recorded investment	Loan balance	Accrued interest receivable	Recorded investment
Commercial, financial and agricultural *	$752,392	$ 3,439	$755,831	$743,797	$ 3,121	$746,918
Commercial real estate *	1,088,348	3,795	1,092,143	1,108,574	4,235	1,112,809
Construction real estate:						
Vision/SE LLC commercial land and development *	26,081	39	26,120	31,603	31	31,634
Remaining commercial	148,922	425	149,347	156,053	394	156,447
Mortgage	19,628	65	19,693	20,039	64	20,103
Installment	9,184	44	9,228	9,851	61	9,912
Residential real estate						
Commercial	392,552	1,120	393,672	395,824	1,105	396,929
Mortgage	1,004,957	1,540	1,006,497	953,758	1,522	955,280
HELOC	221,780	884	222,664	227,682	942	228,624
Installment	48,410	217	48,627	51,354	236	51,590
Consumer	610,180	2,580	612,760	616,505	2,930	619,435
Leases	1,949	52	2,001	2,059	43	2,102
Total loans	$4,324,383	$ 14,200	$4,338,583	$4,317,099	$ 14,684	$4,331,783

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

Credit Quality

The following tables present the recorded investment in nonaccrual, accruing restructured, and loans past due 90 days or more and still accruing by class of loans as of March 31, 2012 and December 31, 2011:

	March 31, 2012			
(In thousands)	Nonaccrual loans	Accruing restructured loans	Loans past due 90 days or more and accruing	Total nonperforming loans
Commercial, financial and agricultural	$36,164	$ 4,100	$ 12	$ 40,276
Commercial real estate	36,754	6,551	-	43,305
Construction real estate:				
SE LLC commercial land and development	20,518	-	-	20,518
Remaining commercial	14,724	17,949	-	32,673
Mortgage	66	-	-	66
Installment	182	-	16	198
Residential real estate:				
Commercial	43,211	541	-	43,752
Mortgage	26,374	5,421	1,523	33,318
HELOC	2,043	-	-	2,043
Installment	1,147	22	221	1,390
Consumer	2,044	-	567	2,611
Leases	-	-	-	-
Total loans	$183,227	$ 34,584	$ 2,339	$ 220,150

	December 31, 2011			
(In thousands)	Nonaccrual loans	Accruing restructured loans	Loans past due 90 days or more and accruing	Total nonperforming loans
Commercial, financial and agricultural	$37,797	$ 2,848	$ -	$ 40,645
Commercial real estate	43,704	8,274	-	51,978
Construction real estate:				
Vision commercial land and development	25,761	-	-	25,761
Remaining commercial	14,021	11,891	-	25,912
Mortgage	66	-	-	66
Installment	30	-	-	30
Residential real estate:				
Commercial	43,461	815	-	44,276
Mortgage	25,201	4,757	2,610	32,568
HELOC	1,412	-	-	1,412
Installment	1,777	98	58	1,933
Consumer	1,876	-	893	2,769
Leases	-	-	-	-

Total loans	$195,106	$ 28,683	$ 3,561	$ 227,350

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The following table provides additional information regarding those nonaccrual and accruing restructured loans that were individually evaluated for impairment and those collectively evaluated for impairment as of March 31, 2012 and December 31, 2011.

(In thousands)	March 31, 2012 Nonaccrual and accruing restructured loans	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	December 31, 2011 Nonaccrual and accruing restructured loans	Loans individually evaluated for impairment	Loans collectively evaluated for impairment
Commercial, financial and agricultural	$40,264	$ 40,241	$ 23	$40,645	$ 40,621	$ 24
Commercial real estate	43,305	43,305	-	51,978	51,978	-
Construction real estate:						
Vision/SE LLC commercial land and development	20,518	19,433	1,085	25,761	24,328	1,433
Remaining commercial	32,673	32,673	-	25,912	25,912	-
Mortgage	66	-	66	66	-	66
Installment	182	-	182	30	-	30
Residential real estate:						
Commercial	43,752	43,752	-	44,276	44,276	-
Mortgage	31,795	-	31,795	29,958	-	29,958
HELOC	2,043	-	2,043	1,412	-	1,412
Installment	1,169	-	1,169	1,875	-	1,875
Consumer	2,044	20	2,024	1,876	20	1,856
Leases	-	-	-	-	-	-
Total loans	$217,811	$ 179,424	$ 38,387	$223,789	$ 187,135	$ 36,654

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

The following table presents loans individually evaluated for impairment by class of loans as of March 31, 2012 and December 31, 2011.

	March 31, 2012			December 31, 2011		
(in thousands)	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	$33,769	$ 26,956	$ -	$23,164	$ 18,098	$ -
Commercial real estate	55,974	35,236	-	58,242	41,506	-
Construction real estate:						
Vision /SE LLC commercial land and development	68,297	19,433	-	54,032	17,786	-
Remaining commercial	28,851	24,604	-	33,319	18,372	-
Residential real estate:						
Commercial	52,550	39,483	-	49,341	38,686	-
Consumer	20	20	-	20	20	-
With an allowance recorded						
Commercial, financial and agricultural	14,597	13,285	4,704	23,719	22,523	5,819
Commercial real estate	9,831	8,069	1,506	12,183	10,472	4,431
Construction real estate:						
Vision/SE LLC commercial land and development	-	-	-	20,775	6,542	1,540
Remaining commercial	20,927	8,069	2,096	9,711	7,540	1,874
Residential real estate:						
Commercial	5,642	4,269	1,199	6,402	5,590	2,271
Consumer	-	-	-	-	-	-
Total	$290,458	$ 179,424	$ 9,505	$290,908	$ 187,135	$ 15,935

Management’s general practice is to proactively charge down loans individually evaluated for impairment to the fair value of the underlying collateral. At March 31, 2012 and December 31, 2011, there were $91.0 million and $83.7 million, respectively, of partial charge-offs on loans individually evaluated for impairment with no related allowance recorded and $17.3 million and $20.1 million, 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 related to loans individually evaluated for impairment at March 31, 2012 and December 31, 2011, of $9.5 million and $15.9 million, respectively, related to loans with a recorded investment of $33.7 million and $52.7 million.

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The following table presents the average recorded investment and interest income recognized on loans individually evaluated for impairment as of and for the three months ended March 31, 2012 and March 31, 2011:

(in thousands)	Three months ended March 31, 2012 Recorded investment as of March 31, 2012	Average recorded investment	Interest income recognized	Three months ended March 31, 2011 Recorded investment as of March 31, 2011	Average recorded investment	Interest income recognized
Commercial, financial and agricultural	$ 40,241	**$ 40,135**	$ 105	$ 19,391	$ 19,515	$ 65
Commercial real estate	43,305	48,214	207	53,259	55,076	70
Construction real estate:						
Vision/SE LLC commercial land and development	19,433	21,974	-	82,060	84,272	-
Remaining commercial	32,673	27,314	251	26,126	26,789	78
Residential real estate:						
Commercial	43,752	43,276	40	58,123	59,465	139
Consumer	20	20	-	-	22	-
Total	$ 179,424	$ 180,933	$ 603	$ 238,959	$ 245,139	$ 352

The following tables present the aging of the recorded investment in past due loans as of March 31, 2012 and December 31, 2011 by class of loans.

(in thousands)	March 31, 2012 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	$3,935	$ 28,225	$ 32,160	$ 723,671	$ 755,831
Commercial real estate	1,062	23,067	24,129	1,068,014	1,092,143
Construction real estate:					
SE LLC commercial land and development	337	16,587	16,924	9,196	26,120
Remaining commercial	-	7,702	7,702	141,645	149,347
Mortgage	173	-	173	19,520	19,693
Installment	61	75	136	9,092	9,228
Residential real estate:					
Commercial	502	13,261	13,763	379,909	393,672
Mortgage	13,174	18,840	32,014	974,483	1,006,497
HELOC	331	297	628	222,036	222,664
Installment	611	510	1,121	47,506	48,627
Consumer	7,302	1,807	9,109	603,651	612,760

Leases	-	-	-	2,001	2,001
Total loans	$27,488	$ 110,371	$ 137,859	$4,200,724	$ 4,338,583

* Includes $2.4 million of loans past due 90 days or more and accruing.

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(in thousands)	December 31, 2011 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	$3,106	$ 11,308	$ 14,414	$ 732,504	$ 746,918
Commercial real estate	2,632	21,798	24,430	1,088,379	1,112,809
Construction real estate:					
Vision commercial land and development	-	19,235	19,235	12,399	31,634
Remaining commercial	99	7,839	7,938	148,509	156,447
Mortgage	76	-	76	20,027	20,103
Installment	421	8	429	9,483	9,912
Residential real estate:					
Commercial	1,545	10,097	11,642	385,287	396,929
Mortgage	15,879	20,614	36,493	918,787	955,280
HELOC	1,015	436	1,451	227,173	228,624
Installment	1,549	1,136	2,685	48,905	51,590
Consumer	11,195	2,192	13,387	606,048	619,435
Leases	-	-	-	2,102	2,102
Total loans	$37,517	$ 94,663	$ 132,180	$ 4,199,603	$ 4,331,783

* Includes $3.6 million of loans past due 90 days or more and accruing.

Credit Quality Indicators

Management utilizes past due information as a credit quality indicator across the loan portfolio. 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 from 1 to 8. Credit grades are continuously monitored by the respective 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 with grades of 1 to 4 (pass-rated) 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 the institution’s credit position at some future date. Commercial loans graded 6 (substandard), also considered 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 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 the institution 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. Any commercial loan graded an 8 (loss) is completely charged-off.

The tables below present the recorded investment by loan grade at March 31, 2012 and December 31, 2011 for all commercial loans:

	March 31, 2012				
(in thousands)	5 Rated	6 Rated	Impaired	Pass Rated	Recorded Investment
Commercial, financial and agricultural	$10,458	$5,217	$40,264	$699,892	$755,831
Commercial real estate	30,257	10,798	43,305	1,007,783	1,092,143
Construction real estate:					
SE LLC commercial land and development	2,801	-	20,518	2,801	26,120
Remaining commercial	6,748	232	32,673	109,694	149,347
Residential real estate:					
Commercial	16,793	1,469	43,752	331,658	393,672
Leases	-	-	-	2,001	2,001
Total Commercial Loans	$67,057	$17,716	$180,512	$2,153,829	$2,419,114

	December 31, 2011				
(in thousands)	5 Rated	6 Rated	Impaired	Pass Rated	Recorded Investment
Commercial, financial and agricultural	$11,785	$7,628	$40,645	$686,860	$746,918
Commercial real estate	37,445	10,460	51,978	1,012,926	1,112,809
Construction real estate:					
Vision commercial land and development	3,102	-	25,761	2,771	31,634
Remaining commercial	6,982	8,311	25,912	115,242	156,447
Residential real estate:					
Commercial	17,120	3,785	44,276	331,748	396,929
Leases	-	-	-	2,102	2,102
Total Commercial Loans	$76,434	$30,184	$188,572	$2,151,649	$2,446,839

Troubled Debt Restructurings (TDRs)

Management classifies loans as TDRs when a borrower is experiencing financial difficulties and Park has granted a concession. 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 its debt in the foreseeable future without the modification. This evaluation is performed under 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 period ended March 31, 2012 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.

At March 31, 2012 and December 31, 2011, there were $98.6 million and $100.4 million, respectively, of TDRs included in nonaccrual loan totals. As of March 31, 2012 and December 31, 2011, there were $34.6 million and $28.7 million, respectively, of TDRs included in accruing loan totals. At March 31, 2012 and December 31, 2011, $52.8 million and $79.9 million of the nonaccrual TDRs were current. 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 March 31, 2012 and December 31, 2011, Park had commitments to lend $5.1 million and $4.0 million, respectively, of additional funds to borrowers whose terms had been modified in a TDR.

The specific reserve related to TDRs at March 31, 2012 and December 31, 2011 was $4.4 million and $9.1 million, respectively. Modifications made in 2011 and 2012 were largely the result of renewals, 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 ASC 310. Additional specific reserves of $252,000 were recorded during the period ending March 31, 2012 as a result of TDRs identified in the 2012 year.

The terms of certain other loans were modified during the three month period ended March 31, 2012 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 March 31, 2012 of $3.6 million. The modification of these loans: (1) involved a 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 as of March 31, 2012 of $6.3 million. Many of these loans were modified as a lower cost option than a full refinancing to borrowers who were not experiencing financial difficulties.

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The following table details the number of contracts modified as TDRs during the three month period ended March 31, 2012 as well as the period end recorded investment of these contracts. The recorded investment pre- and post-modification is generally the same.

	Three months ended March 31, 2012			
(In thousands)	Number of Contracts	Accruing	Nonaccrual	Total Recorded Investment
Commercial, financial and agricultural	5	$ 1,289	$ 750	$ 2,039
Commercial real estate	16	2,212	2,967	5,179
Construction real estate:				
SE LLC commercial land and development	4	-	894	894
Remaining commercial	9	8,641	1,565	10,206
Mortgage	-	-	-	-
Installment	-	-	-	-
Residential real estate:				
Commercial	3	-	318	318
Mortgage	9	111	1,170	1,281
HELOC	-	-	-	-
Installment	-	-	-	-
Consumer	1	-	91	91
Leases	-	-		-
Total loans	47	$ 12,253	$ 7,755	$ 20,008

As of December 31, 2011, $6.2 million of those loans modified during the three month period ended March 31, 2012 were on nonaccrual status.

The following table presents the recorded investment in financing receivables which were modified as troubled debt restructurings within the previous 12 months and for which there was a payment default during the three month period ended March 31, 2012. For this table, a loan is considered to be in default when it becomes 30 days contractually past due under the modified terms.

	Three months ended March 31, 2012	
	Number of Contracts	Recorded Investment
(In thousands)		
Commercial, financial and agricultural	15	$ 8,469
Commercial real estate	8	3,201
Construction real estate:		
SE LLC commercial land and development	3	659
Remaining commercial	8	4,155
Mortgage	-	-
Installment	-	-
Residential real estate:		
Commercial	6	3,948
Mortgage	5	684
HELOC	1	48
Installment	-	-
Consumer	-	-
Leases	-	-
Total loans	46	$ 21,164

Of the $21.2 million in modified trouble debt restructurings which defaulted during the period ended March 31, 2012, $205,000 were accruing loans and $20.0 million were nonaccrual loans.

Note 6 – 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 2011 Annual Report.

The activity in the allowance for loan losses for the three months ended March 31, 2012 and March 31, 2011 is summarized below.

	Three months ended March 31, 2012							
(In thousands)	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Centennial loan put	Total
Allowance for credit losses:								
Beginning balance	$16,950	$ 15,539	$ 14,433	$ 15,692	$ 5,830	$ -	$ -	$68,444
Charge-offs	4,538	4,934	4,320	3,922	1,253	-	-	18,967
Recoveries	468	92	67	609	707	-	-	1,943
Net Charge-offs	4,070	4,842	4,253	3,313	546	-	-	17,024
Provision	5,448	1,309	(433)	1,489	525	-	-	8,338
Ending balance	$18,328	$ 12,006	$ 9,747	$ 13,868	$ 5,809	$ -	-	$59,758
Provision for Centennial loan put	-	-	-	-	-	-	662	662
Allowance for Credit Losses	$18,328	$ 12,006	$ 9,747	$ 13,868	$ 5,809	$ -	$ 662	$60,420

	Three months ended March 31, 2011						
(In thousands)	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
Allowance for credit losses:							
Beginning balance	$11,555	$ 24,369	$ 70,462	$ 30,259	$ 6,925	$ 5	$143,575
Charge-offs	1,841	1,785	3,420	2,487	1,973	-	11,506
Recoveries	569	802	96	501	390	3	2,361
Net Charge-offs	1,272	983	3,324	1,986	1,583	(3)	9,145
Provision	1,508	1,834	4,697	4,142	1,923	(4)	14,100
Ending balance	$11,791	$ 25,220	$ 71,835	$ 32,415	$ 7,265	$ 4	$148,530

The composition of the allowance for loan losses at March 31, 2012 and December 31, 2011 was as follows:

	March 31, 2012						
	Commercial, financial and agricultural	Commercial real estate	Construction real estate	Residential real estate	Consumer	Leases	Total
(In thousands)							
Allowance for loan losses:							
Ending allowance balance attributed to loans:							
Individually evaluated for impairment	$4,704	$ 1,506	$ 2,096	$ 1,199	$ -	$ -	$9,505
Collectively evaluated for impairment	13,624	10,500	7,651	12,669	5,809	-	50,253
Total ending allowance balance	$18,328	$ 12,006	$ 9,747	$ 13,868	$ 5,809	$ -	$59,758

Loan balance: